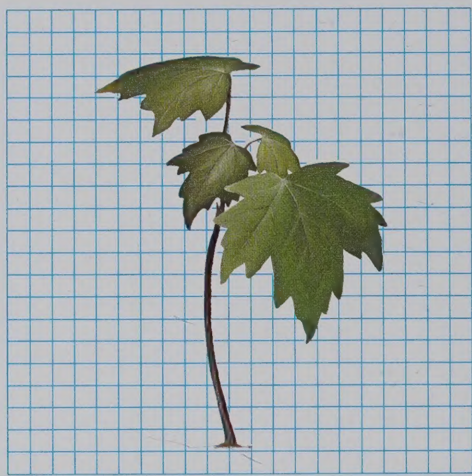
IAC Limited
50th Annual Report
1974

Fifty Years of Money in Action



IAC Limited and Subsidiaries 50th Annual Report 1974

For the year ended December 31, 1974

Contents

IAC Limited

Incorporated under the laws of Canada February 7, 1925

Head Office, 45 St. Clair Ave. W., Toronto, Ontario M4V 2Y2

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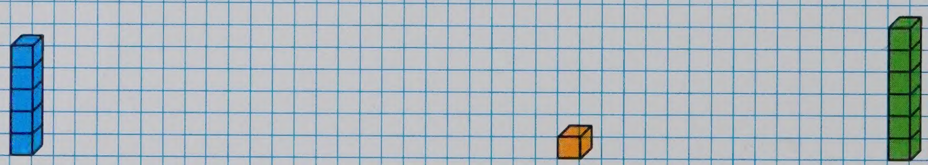
Total Receivables
Represents $1,000,000

Shareholders' Equity
Represents $1,000,000

Earnings on Common Shares
Represents $10,000

1925 The company was incorporated under the laws of Canada on February 7, 1925. With a change in ownership, IAC emerged as an all-Canadian company on June 11, 1930. Because the character and capital structure of the company were altered at that time, information prior to 1930 is not meaningful for purposes of comparison and is therefore omitted.

	Total Receivables	Shareholders' Equity	Earnings on Common Shares
1930	5,374,000	1,042,000	64,000



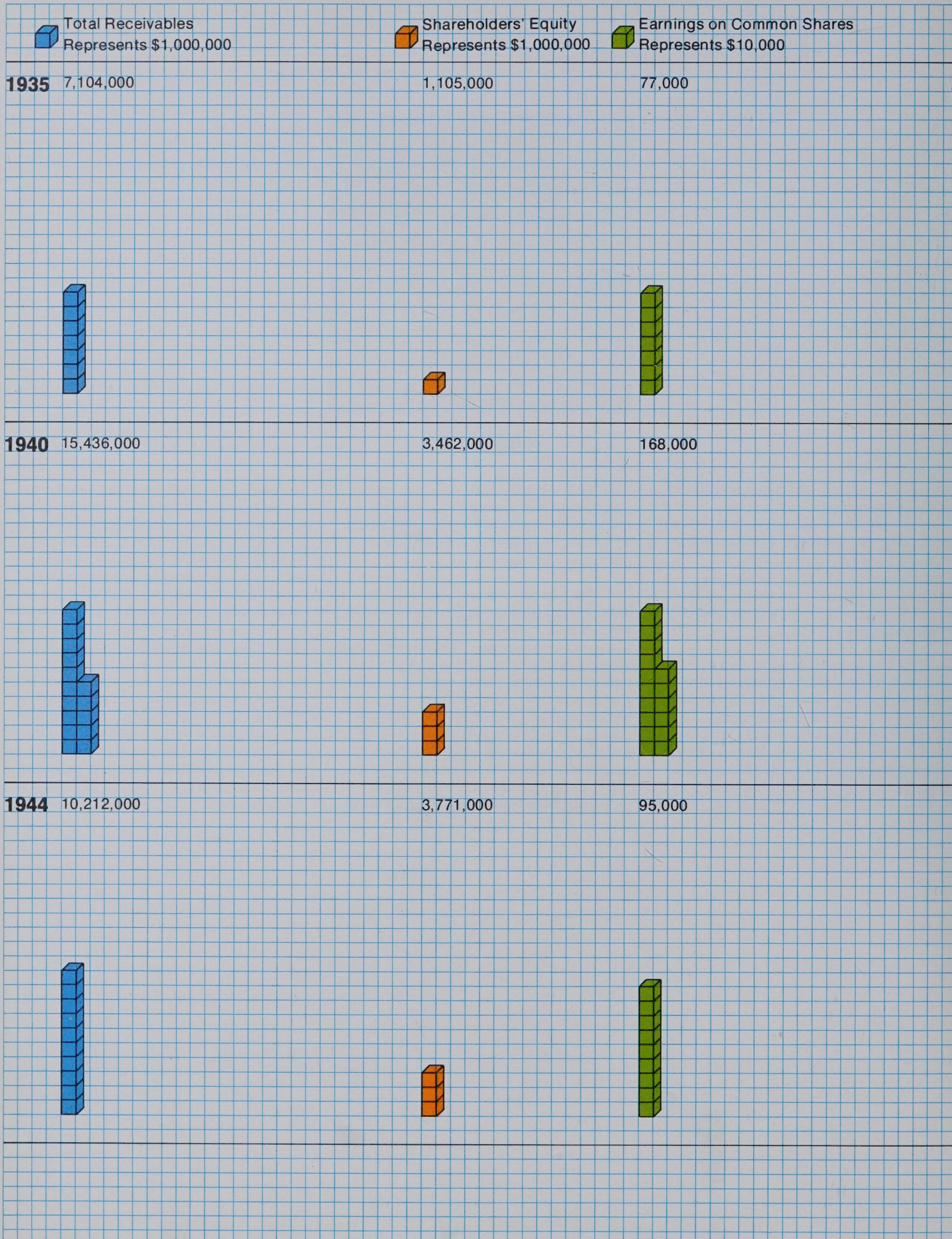
	Total Receivables	Shareholders' Equity	Earnings on Common Shares
1934	5,501,000	1,027,000	51,000

1925-1934

IAC began its life in 1925 as the wholly-owned subsidiary of an American financial organization, operating out of a single office in Windsor, Ontario, under the name Industrial Acceptance Corporation of Canada Limited. Its business was basically confined to the wholesale and retail sales financing of Studebaker cars.

The Company had grown to a modest size, operating 12 offices coast-to-coast by 1930, when the U.S. parent decided to liquidate its Canadian subsidiary to raise additional capital for domestic use. But J. P. A. Smyth, then General Manager in the Windsor office, had other ideas. Through the efforts of Russell Bell of Greenshields & Co., Inc. and Mr. Smyth, Industrial Acceptance became an independent, Canadian-owned enterprise with capitalization of $1 million in debentures and another $1 million in common stock.

The soundness of this move was immediately challenged by the severest economic conditions in modern history, the great depression. The Company had already begun to diversify its portfolio before the change of ownership, and this policy was continued. In 1929, only 13% of receivables were in non-automobile goods; in 1930 this had climbed to 38%, the principal area of expansion being household durables. At the same time, the Company entered the industrial financing field which was to become an increasingly important area of business in the future. But by 1932, the depression was on in earnest, and there were declines in volume, assets and earnings. In 1933, the Head Office was moved to Montreal, providing better connections to branches in both the east and the west as well as improved access to sources of funds. The downward trend in business continued through 1933, and by 1934, volume had crept back only to 1932 levels. Nevertheless, the Company never failed to show a profit during these difficult times. Aggregate losses for the five depression years 1929-1934 totalled less than 1% of volume for that period, an impressive tribute to the good judgement and tenacity of the fledgling Company's management.


Total Receivables
Represents $1,000,000
Shareholders' Equity
Represents $1,000,000
Earnings on Common Shares
Represents $10,000
1935
7,104,000
1,105,000
77,000
1940
15,436,000
3,462,000
168,000
1944
10,212,000
3,771,000
95,000

1935-1944

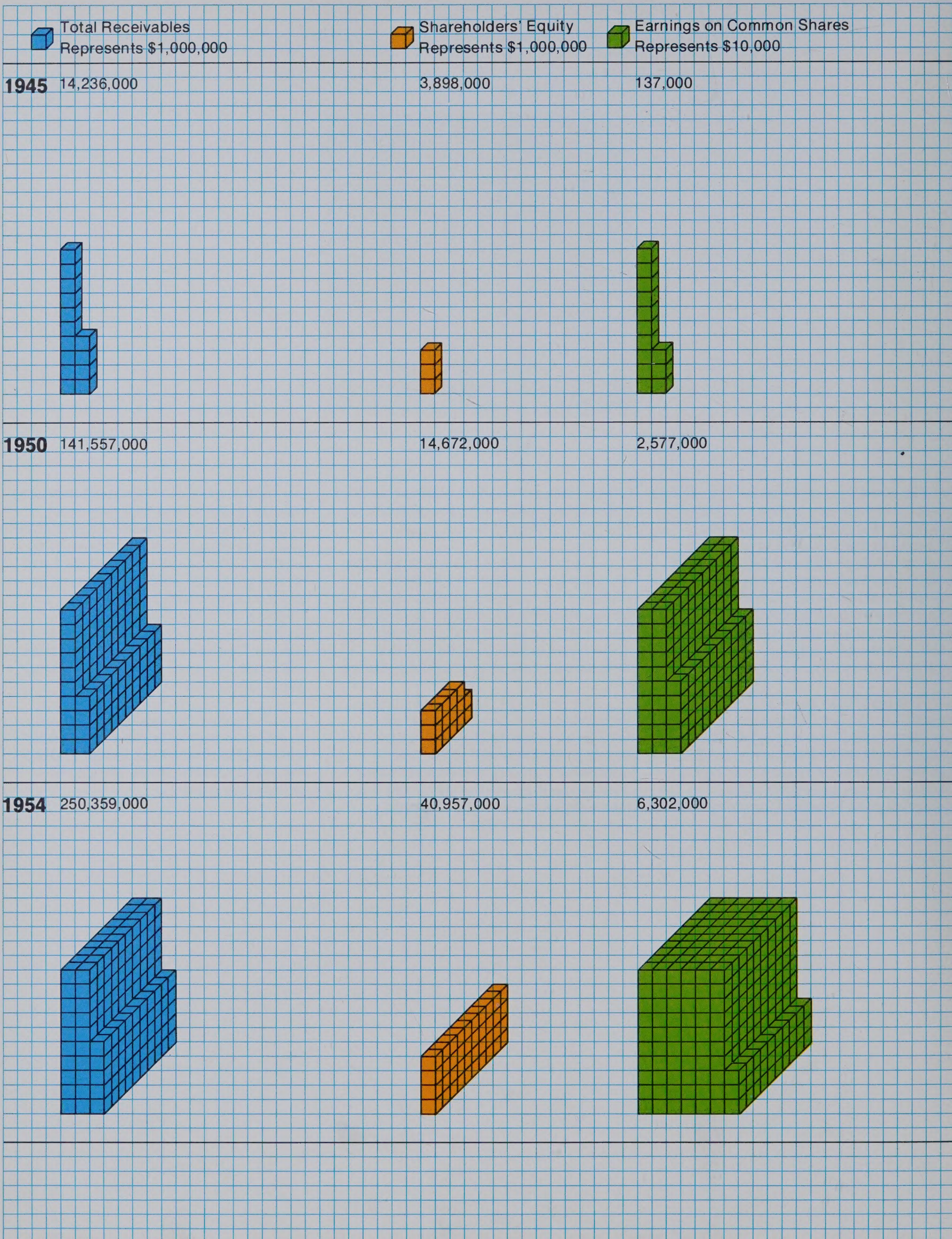
In 1935, the Company was serving 40,000 customers, and was growing rapidly. The following year, the Head Office was changed to Toronto (though the Executive Office remained in Montreal) and 10 new branches were opened, bringing the total to 21. Capitalization was increased from $2 million to $4.8 million through a new equity issue, and I.A.C. shares were listed for the first time on the Montreal Stock Exchange.

The Canadian economy revived slowly through the late thirties, with new car sales in 1937, for example, reaching only 65% of the level achieved in 1929, but the Company's volume continued to climb from year to year. In 1940, Campbell Auto Finance Company Limited was purchased, adding personal loans to the range of financial services offered to customers.

The outbreak of the war presented an entirely new challenge to the organization that had so recently put the struggles of the depression behind it. Escalating taxes cut into profits and the shift to war production caused the automobile market to virtually disappear.

The results of Campbell Finance operations were consolidated into I.A.C.'s statements as of 1941, but total earnings still declined as the war continued. Several portfolios of other companies even harder hit by the war economy were purchased, and an increasing amount of business financing was done, some of it with sub-contractors doing armaments production work. Significantly, while competitors curtailed operations, reduced staff and closed branches, I.A.C. maintained its branch network despite the problems involved. By 1942, over 50% of the Company's male staff was on active service. The same year, notwithstanding the profit squeeze, a staff pension plan was inaugurated.

The year 1944 saw the Company hanging on grimly, but looking forward with confidence to final victory and the resumption of consumer durables production at home.


Total Receivables
Represents $1,000,000
Shareholders' Equity
Represents $1,000,000
Earnings on Common Shares
Represents $10,000
1945
14,236,000
3,898,000
137,000
1950
141,557,000
14,672,000
2,577,000
1954
250,359,000
40,957,000
6,302,000

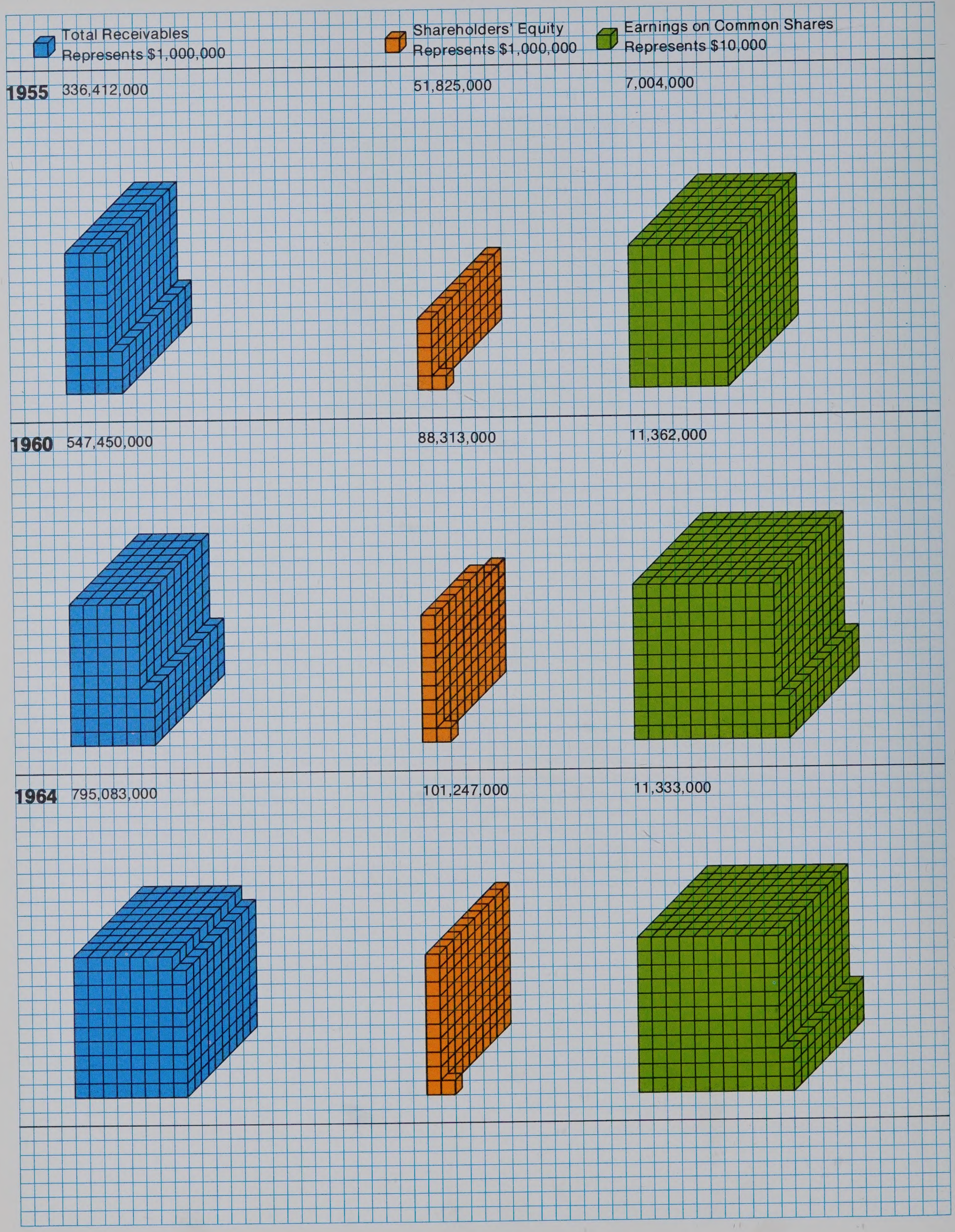
1945-1954

The post-war decade provided I.A.C. with the first prolonged period of favorable economic conditions in its history. The fact that the Company survived at all through the depression and the war years proved that its services were viable, but its position at war's end was still relatively tenuous. In the next ten years, as Canada's consumer economy hit full stride, I.A.C. came into its own, not merely as a provider of peripheral financial services, but as a financial institution occupying an important place in the mainstream of business.

The principal problem facing the Company—and it was an agreeable sort of problem—was that of raising sufficient capital to finance expansion. As a first move, two subsidiaries were sold, and the resulting funds were diverted into the resurgent sales finance business. In 1947 and '48, further capital was raised through new equity and debenture issues as the Company put its millionth customer on the books. The same year, the common stock was split two-for-one, and a 92% interest in a general insurance company, Progressive Insurance, was purchased, enabling I.A.C. to offer its retail auto finance customers a secure source of insurance for their cars. A year later, the Company moved to re-enter the consumer loan field through a new subsidiary, Niagara Finance Company Limited.

The boom years of the early 50's put a steadily increasing strain on the Company's ability to raise funds, particularly when the government moved to dampen burgeoning consumer demand by restricting bank loans. This situation prompted I.A.C. to take steps to set up the framework for what is now the well-established short-term money market in Canada. Previously, no short-term instrument other than government treasury bills existed for the investment of capital over terms of less than one year. The short-term market supplemented the more traditional debt and equity issues in fuelling the Company's continuing expansion through the 50's.

By 1954 another two-for-one common stock split had occurred, and there were 81 branch offices coast-to-coast with over 1,500 employees administering assets of over a quarter of a billion dollars. One of these assets was a new executive office building, erected in Montreal's suburban Town of Mount Royal by a new I.A.C. subsidiary, Premier Property Limited. It housed the administrative headquarters of I.A.C. and most of its subsidiaries, including newly-founded Merit Insurance, which had absorbed the I.A.C.-related auto insurance business previously handled by Progressive Insurance.


Total Receivables
Represents $1,000,000
Shareholders' Equity
Represents $1,000,000
Earnings on Common Shares
Represents $10,000
1955
336,412,000
51,825,000
7,004,000
1960
547,450,000
88,313,000
11,362,000
1964
795,083,000
101,247,000
11,333,000

1955-1964

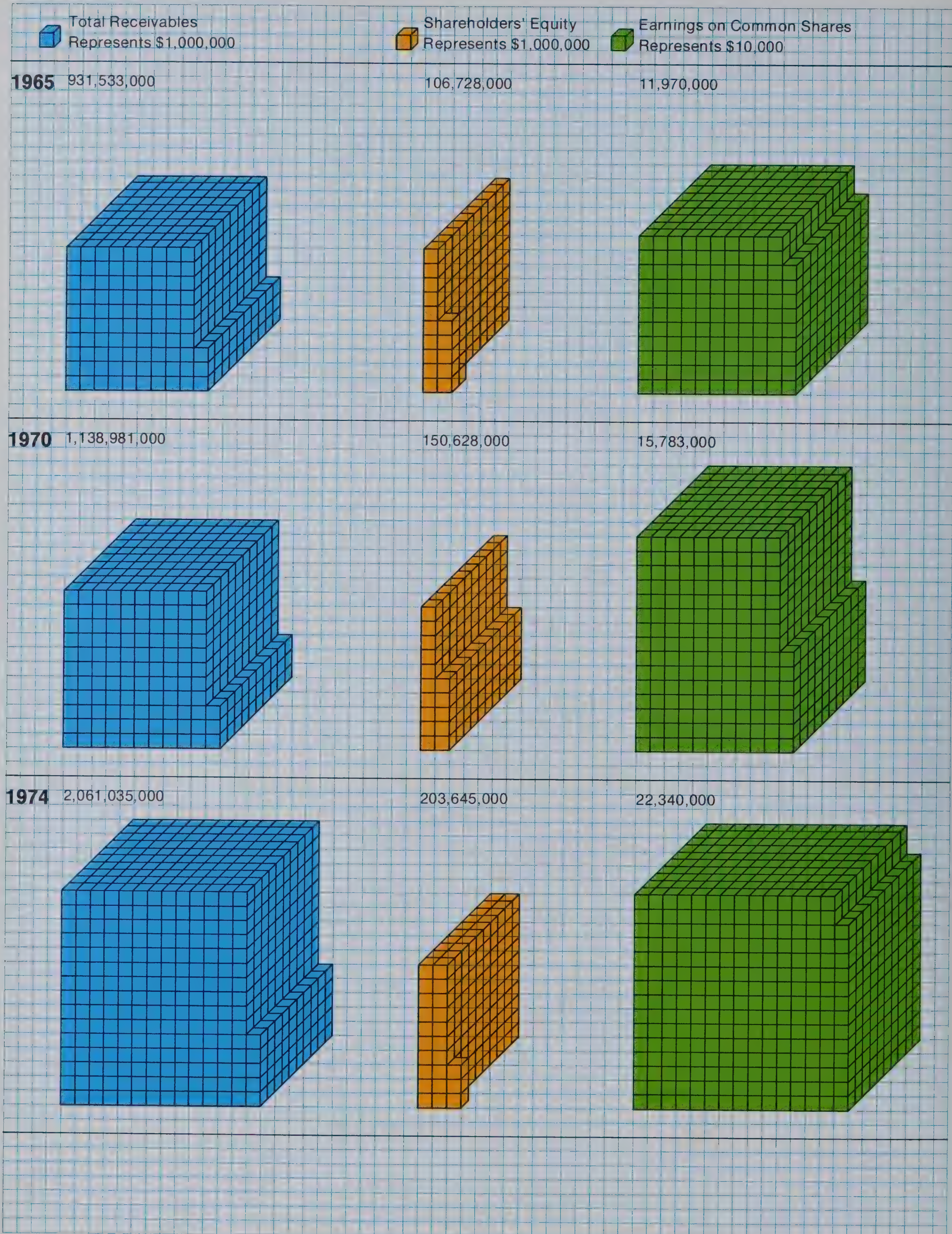
The late fifties and early sixties were years of solid progress for I.A.C., though the road was not without its rough spots.

During this period, the Company continued to streamline its capital structure and broaden its business base. The relative importance of industrial financing was recognized by the opening of a chain of specialized offices with separate supervision and administration to develop this area of business. At the same time, all general insurance services were consolidated into Merit Insurance, and Progressive Insurance was sold. Niagara Finance entered a period of strong expansion, registering growth in receivables of 28%, 22% and 20% in the years 1958, '59 and '60.

The early sixties saw a host of other innovations designed to cope with the increasing size and complexity of the organization and assure its future growth. Among these were the introduction of a new level of supervisory management, a centralized accounting service, the Company's first electronic data processing system, formalized staff training programs, and a pioneering move into business loans and leasing through a newly-formed Capital Funds Division. Several new subsidiaries and investments were added in 1962, notably the purchase of The Sovereign Life Assurance Company of Canada. I.A.C. also became a shareholder in Canborough Corporation, a company created to provide a secondary market for NHA mortgages. In 1963, two new subsidiaries were formed to enter the residential mortgage field.

Throughout this period, I.A.C. refined the personnel policies that have played an important role in the Company's development ever since. In the financial field, there is little to differentiate the products of competing companies; the only substantial variable is the people involved and the service they provide. As the I.A.C. organization evolved, intensive efforts were made to ensure that all offices were staffed with the best-trained people available, and a strong orientation towards customer service was given the highest priority.

In 1964, with nearly 3,000 employees at work in 190 branches, the I.A.C. organization passed a major milestone: $1 billion of business volume. The "dirty thirties" seemed a long way off.


Total Receivables Represents $1,000,000
Shareholders' Equity Represents $1,000,000
Earnings on Common Shares Represents $10,000
1965
931,533,000
106,728,000
11,970,000
1970
1,138,981,000
150,628,000
15,783,000
1974
2,061,035,000
203,645,000
22,340,000

1965-1974

Disruptions in the money market in 1965 had little effect on the Company. Prudent policies, mistaken by some people as excessive conservatism, were vindicated. I.A.C.'s unbroken record of profitability over 40 years, combined with 29 successive years of dividends to shareholders, stood it in good stead with investors.

In 1966, growth was deliberately curtailed in the face of tight money conditions, and steps were taken to improve the proportion of various types of receivables in the overall mix. These moves proved themselves two years later, when the Company rebounded to achieve record volume and earnings—as well as push its assets beyond the $1 billion mark. Both the Niagara mortgage business and I.A.C.'s Capital Funds operations were beginning to make their presence felt, and steps were taken to begin the integration of Merit and Sovereign insurance operations wherever possible to improve overall economies.

In 1969, a process of decentralization of management was launched, to move day-to-day decision-making power closer to the scene of action in four divisional headquarters cities. Part of this process involved moving more senior personnel to Toronto, now established as the key financial center in the country. The value of diversification showed itself again in 1970, when the strength of the leasing and mortgage operations offset a slackening of consumer spending and a slump in auto sales. In the same year, Niagara Realty came of age, and successfully carried out its first public borrowing in its own right.

In 1970, the name Industrial Acceptance Corporation was officially changed to today's name, IAC Limited. With money costs easing, profits rose 16.3% to $18.4 million. This was the beginning of an unprecedented surge of growth. The following year saw receivables jump a record 19.9%, only to be exceeded by 1973's new record of 20.9%. In three years, receivables grew by a remarkable 52.2%, pushing total assets close to $2 billion a scant five years after they reached the $1 billion mark.

During this period, the integration of Merit and Sovereign at the marketing level was completed, following which Merit's name was changed to The Sovereign General Insurance Company. IAC also became the major partner with three other financial institutions in the formation of The Sovereign Mortgage Insurance Company in 1972.

The years 1973 and 1974 were marked by exceptionally volatile money and capital market conditions which at one point produced a virtual doubling of short-term rates in less than 12 months. Nevertheless, IAC's size and diversity enabled it to maintain steady growth in overall volume, and modest growth in earnings. By year-end '74, an easing of money costs had begun, and the prospects for '75 looked brighter than ever.

Highlights for the Year

	1974	1973	Per Cent Increase (Decrease)
Gross Income	**$ 221,750,000**	$ 171,547,000	29.3
Proportion taken up by			
—Cost of borrowed money	**52.2%**	42.7%	
—General and administrative expenses	**23.1%**	26.9%	
Earnings applicable to common shares	**$ 22,340,000**	$ 21,475,000	4.0
Dividends paid on common shares	**$ 12,999,000**	$ 12,478,000	4.2
Proportion of earnings	**58.2%**	58.1%	
Earnings per share	**$1.69**	$1.65	
Dividends paid per share	**$ .98**	$ .96	2.1
Per cent return on average common equity	**12.63%**	13.02%	
Volume of Business			
Sales financing—wholesale	**$1,460,542,000**	$1,347,917,000	8.4
—retail	**$ 644,485,000**	$ 629,425,000	2.4
Consumer loans	**$ 214,156,000**	$ 216,769,000	(1.2)
Residential mortgages	**$ 88,666,000**	$ 66,559,000	33.2
Commercial loans and leasing	**$ 120,882,000**	$ 124,103,000	(2.6)

At the Year End

Total consolidated assets	**$2,139,457,000**	$1,852,885,000	15.4
Number of common shareholders	**11,853**	12,510	(5.3)
—domiciled in Canada	**95.9%**	95.9%	
Number of common shares outstanding	**13,487,698**	13,006,293	3.7
—owned in Canada	**96.3%**	95.7%	

Report of the Directors to the Shareholders

Your Company's results in 1974 were strongly affected by buoyant demand for its services on the one hand and historically high money costs on the other.

Consolidated assets increased by $287 million, a growth of 15.4%. Another milestone in the Company's history was established when consolidated assets passed the $2 billion mark.

Gross income increased by $50.2 million, a gain of 29.3% over the previous year. However, the average cost of borrowed funds was 9.0% as compared to 7.2% in 1973. As the result of this and increased usage to support the growth in assets, borrowed money costs were up $42.6 million or 58.0%. General and administrative expenses increased by $5.3 million but declined as a percentage of gross income to 23.1% as compared to 26.9% in the previous year.

Earnings applicable to common shares reached a new high at $22.3 million, an increase of 4.0% over the previous year. The dividend paid per common share was $0.98 as against $0.96 in 1973. There was an average of 209,000 more shares outstanding than in the previous year. This marked the 38th consecutive year in which dividends were earned and paid and the 19th consecutive year in which the payout exceeded that of the previous year.

Your Company's receivables are in sound condition with delinquency and losses at historically low levels.

During the year the parent company placed Secured Notes Series 40 in the amount of $43 million in U.S. funds with institutional investors in the United States. In Canada, Convertible Subordinated Debentures Series 1974 in the amount of $24 million were issued.

Niagara Finance Company Limited raised $15 million through an issue of Debentures Series C.

Niagara Realty of Canada Limited marketed two Series of Secured Notes, E and F, each in the amount of $25 million.

Thus, despite an uncertain bond market, your Company and its subsidiaries successfully raised $132 million in long term funds during the year.

Your Directors wish to record the following changes through elections and appointments by the Board during 1974:

On April 24, 1974, subsequent to the Annual General Meeting of Shareholders:

K.H. MacDonald was elected Vice-Chairman of the Board
J.S. Land was elected President
D.W. Maloney was elected Executive Vice-President
A.P. Bolin was appointed Senior Vice-President

During the year:

David Kinnear was elected to the Executive Committee of the Board
S.F. Melloy was appointed Executive Vice-President—Finance
L.G. Gravel, R. Hémond and N.V. Keyes were appointed Vice-Presidents
P.A. Dick, D.H. Lyons and V. Mousseau were appointed Assistant Vice-Presidents

In December, K.H. MacDonald was elected Chairman of the Board and Chairman of the Executive Committee upon the retirement of L.E. Nichol after 37 years of outstanding service with your Company. Mr. Nichol continues to serve as a Director.

The continued progress of your Company was made possible by the loyalty, enthusiasm and diligence of the people throughout the IAC organization. Your Directors wish to record their appreciation and warm thanks for their efforts.

With the Canadian economy evidencing weakening trends in some areas, asset growth in 1975 may not match that of the past three years. However, the recent decline in the cost of short term borrowings, if it persists, will be very constructive from an earnings point of view. Your Directors are confident that results for the year will be satisfactory.

On behalf of the Board

Chairman

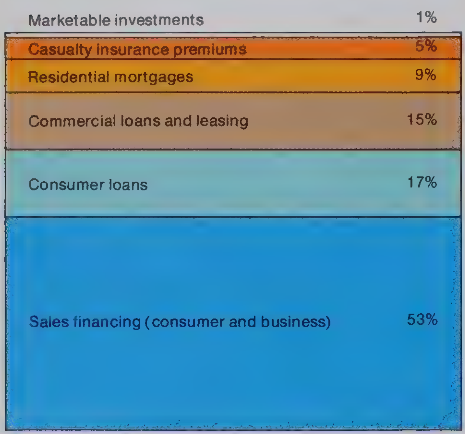
President

General Commentary

Sources of Gross Income

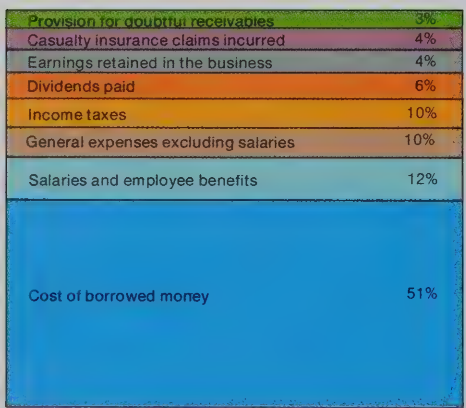
(Before Provision for Doubtful Receivables)

Chart 1



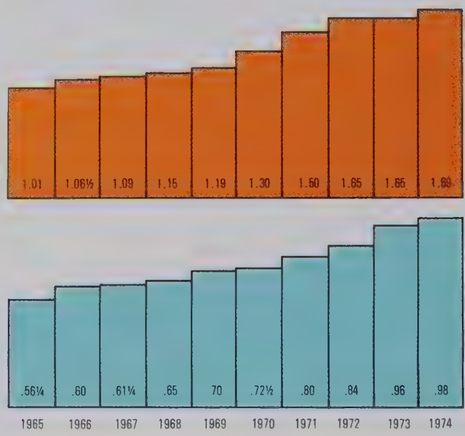
Composition of Gross Income Distribution

Chart 2



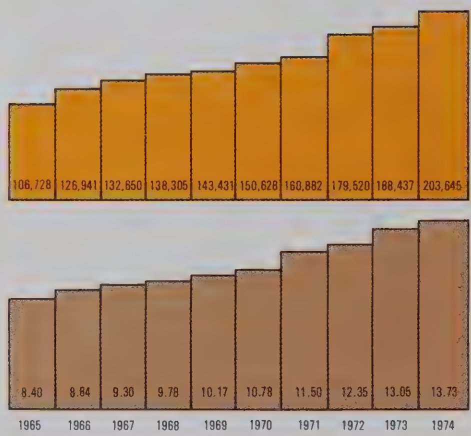
Earnings per Share $
Dividend per Share $

Chart 3



Shareholders' Equity $000's
Book Value per Common Share $

Chart 4



These comments and charts are intended to provide supplemental information relative to the results of your Company's operations presented elsewhere in this report, and indicate some trends in the Company's activities.

Gross Income

Interim reports to the shareholders during the year drew attention to continuing large increases in money costs and to the fact that the Company's prices for its services were being appropriately adjusted. Further, it was pointed out that by the nature of the business, there is an inevitable time lag between the introduction of such adjustments and their reflection in income. However, their effect in 1974 is evidenced by the fact that the average gross return on net investments in income producing receivables and marketable securities was 8.2% above that of the previous year.

Chart 1—Sources

This chart illustrates certain shifts in the mix of gross income as compared to 1973, with residential mortgages, commercial loans and leasing and sales financing (consumer and business) showing increases, while the proportion derived from consumer loans declined.

Chart 2—Distribution

This chart dramatically demonstrates the effect of historically high money cost during 1974. Out of every $100 of income, $51 was paid for borrowed money. This expenditure has never before absorbed more than half of gross income and in fact during the Company's 50-year history has only exceeded 40% in five of those years. As a consequence, the proportion of all other items of income distribution with the sole exception of provision for doubtful receivables declined in comparison to the previous year.

Receivables and their Composition

1972 Total $1,451,213,000 (100%) | 1973 Total $1,775,134,000 (122%) | 1974 Total $2,061,035,000 (142%) Chart 5

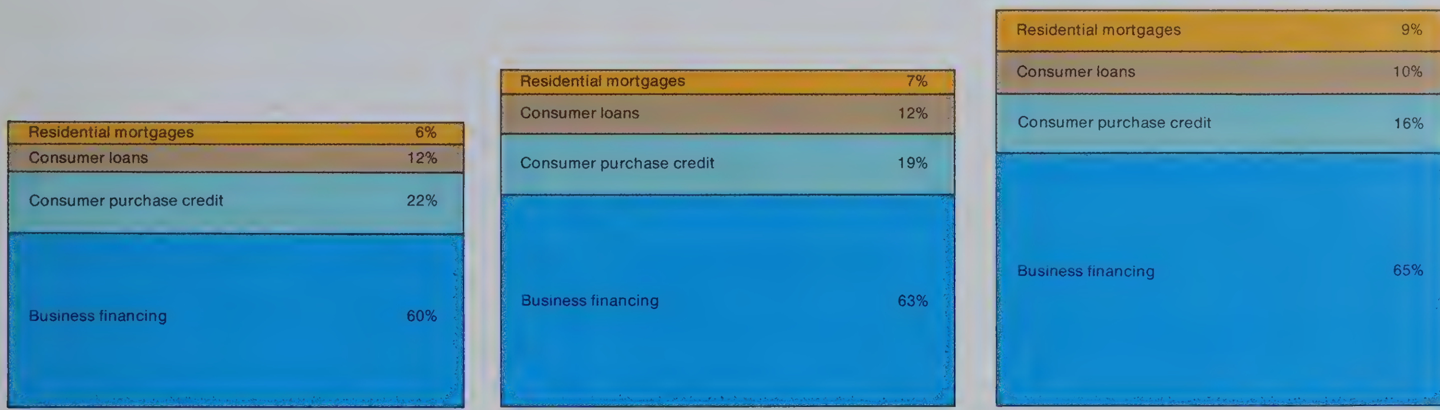


Chart 3—Earnings per share/Dividend per share

After showing no increase in 1973, when earnings per share remained flat at $1.65, an increase of 4¢ per share to $1.69 was achieved in 1974. This improvement was made despite the pressure of sharply higher costs and an increase of over 200,000 in the total number of shares outstanding.

The dividend payout ratio was virtually unchanged and approximated its level for the last decade on an annual percentage basis.

Chart 4—Shareholders' Equity/Book Value

Shareholders' equity increased 8% in 1974, mainly due to the issuance of common shares as the result of the exercise of purchase warrants attached to subordinated debentures as well as a 7.5% increase in retained earnings. Meanwhile, earnings applicable to common shares increased 4%. This combination produced a slight decline in return on common equity (see highlight page), though it remains higher at 12.63% than the average for the past 10 years.

Chart 5—Receivables and their Composition

The largest single category of receivables is business financing, which includes investment in commercial revenue-producing assets of all classes and kinds. Specifically, this category includes wholesale sales financing for motor vehicle and equipment dealers, dealer loans, inventory financing for durable goods manufacturers, commercial loans and mortgages, leasing, and retail sales financing of commercial vehicles, industrial equipment such as construction equipment and machinery, materials handling equipment, lumber and sawmill equipment, etc. The strong growth pattern of this category as indicated in the chart, reflects the Company's policy of continuing to broaden and diversify its portfolio in order to reduce its vulnerability to cyclical trends or sales declines in any one business or industry. At year end, exclusive of wholesale and dealer loan financing, receivables in the category of business credit amounted to $1,034 million and in consumer credit, $719 million.

Consumer purchase credit includes passenger cars, mobile homes and recreational equipment. There was continuing growth in this category, as well as in consumer loans, yet they represent a lesser proportion of total receivables.

Residential mortgages have grown 87% over the past two years, a performance which accounts for their increased proportion of the total at 9% in 1974 (1973: 7%).

Summary

The position of your Company is strong by any measurement. Performance statistics on its portfolio of receivables, as a result of careful selection of business, compared favourably to any previously recorded.

In business investment, markets for the financing and leasing services of your Company are being broadened continuously. The Company's growing resources of capital and experienced, capable personnel ensure the progress of its contribution to the Canadian economy.

Consolidated Statement of Earnings

For the year ended December 31, 1974

	1974 $000's		1973 $000's	
Gross Income (note 2)		221,750		171,547
Expenditure (note 3)				
Cost of borrowed money—				
Secured notes	107,329		65,704	
Debentures	8,518		7,576	
	115,847		73,280	
Casualty insurance claims incurred	9,016		8,278	
General and administrative	51,359	176,222	46,083	127,641
		45,528		43,906
Provision for Income Taxes				
Current	2,396		2,312	
Deferred	20,848	23,244	19,806	22,118
		22,284		21,788
Parent company's portion of increase in unassigned surplus of life assurance subsidiary (note 1)		771		641
Share of earnings of mortgage insurance company (note 1)		281		65
Earnings		23,336		22,494

Consolidated Statement of Retained Earnings

For the year ended December 31, 1974

	1974 $000's	1973 $000's
Earnings for the year	**23,336**	22,494
Dividends on preferred shares	**996**	1,019
Earnings Applicable to Common Shares	**22,340**	21,475
Dividends on common shares at $0.98 per share (1973—$0.96)	**12,999**	12,478
Earnings retained in the business	**9,341**	8,997
Gain on preferred shares purchased for cancellation	**78**	129
Increase in retained earnings for the year	**9,419**	9,126
Retained earnings at beginning of year	**125,649**	116,523
Retained earnings at end of year (note 6)	**135,068**	125,649

	1974 ($)	1973 ($)
Common Stock Earnings per Share—		
Calculated on daily average of common shares outstanding—13,204,861; 1973—12,995,747 (note 7)	**1.69**	1.65

Consolidated Balance Sheet

as at December 31, 1974

Assets

	1974 $000's	1973 $000's
Cash	**46,416**	35,376
Receivables		
Sales financing—wholesale	**287,228**	235,392
—retail	**798,840**	725,232
Dealer loans	**20,762**	20,616
Inventory financing	**8,936**	4,176
Consumer loans	**216,617**	197,479
Residential mortgages	**175,619**	127,589
Commercial loans and mortgages	**50,479**	33,669
Leasing (note 9)	**498,701**	427,499
Other	**2,342**	1,730
Property, vehicles and equipment held for sale	**1,511**	1,752
	2,061,035	1,775,134
Allowance for doubtful receivables	**20,656**	18,310
	2,040,379	1,756,824
Marketable Securities—at cost or amortized values plus accrued interest (quoted value 1974—$16,520,000; 1973—$17,005,000) (note 10)	**18,769**	18,405
Commercial Paper Receivable	**1,027**	7,765
Investments in Non-Consolidated Subsidiary and other Companies		
Life assurance subsidiary (note 1)	**6,966**	6,195
Mortgage insurance company (note 1)	**3,946**	2,465
Other companies—at cost	**1,675**	1,675
	12,587	10,335
Other Assets and Deferred Charges		
Cash committed for debenture and preferred stock retirement	**399**	395
Income taxes recoverable	**1,105**	8,535
Leasehold improvements and prepaid expenses	**2,904**	2,595
Unamortized debt discount and expense	**11,565**	8,678
Premises and equipment—at cost, less accumulated depreciation of $5,346,000 (1973—$4,966,000)	**4,306**	3,977
	20,279	24,180
	2,139,457	1,852,885

Signed on behalf of the Board D.W. Maloney, Director J.S. Land, Director

Consolidated Balance Sheet
as at December 31, 1974

Liabilities

	1974 $000's	1973 $000's
Secured Demand Bank Loans	**24,225**	27,460
Secured Short-Term Notes	**606,321**	527,321
Secured Term Notes (Schedule A and notes 11 and 12)	**637,880**	539,659
Debentures (Schedule B and note 12)	**103,415**	97,110
Subordinated Debentures (Schedule C and notes 12 and 16)	**35,731**	12,123
	1,407,572	1,203,673
Payables		
Accounts payable and accrued liabilities (note 13)	**86,862**	82,846
Income taxes	**391**	614
Dealer credit balances	**17,564**	16,936
	104,817	100,396
Unearned Income (notes 9 and 14)	**314,767**	271,759
Unrealized Foreign Exchange Gain (note 11)	**6,664**	7,658
Deferred Income Taxes (note 15)	**101,992**	80,962
	1,935,812	1,664,448

Shareholders' Equity

	1974 $000's	1973 $000's
Capital Stock (Schedule D)		
Preferred shares	**18,395**	18,674
Common shares (note 16)	**50,182**	44,114
	68,577	62,788
Retained Earnings (note 6)	**135,068**	125,649
	203,645	188,437
	2,139,457	1,852,885

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1974

	Proceeds from new borrowings $000's	Redemptions $000's	1974 $000's	1973 $000's
Sources of Funds				
Operations—				
Earnings			23,336	22,494
Amortization of debt discount and expense			36,457	18,428
Amortization and depreciation of fixed assets			1,587	1,446
Provision for deferred income taxes			20,848	19,806
Contribution to earnings of unconsolidated subsidiary and mortgage insurance company			(1,052)	(706)
			81,176	61,468
Borrowings—				
Secured demand bank loans	911,465	914,700	(3,235)	933
Secured short-term notes	3,437,430	3,395,033	42,397	195,120
Secured term notes	169,506	73,916	95,590	18,110
Debentures and subordinated debentures	38,077	9,087	28,990	(3,919)
			163,742	210,244
Capital stock—				
Common shares—proceeds of issues			6,068	262
Preferred shares—cost of redemptions			(201)	(342)
			5,867	(80)
Other—				
Net increase in payables			4,421	5,871
Net (increase) in other assets including other receivables and property held for sale			4,831	(6,459)
			9,252	(588)
			260,037	271,044
Uses of Funds				
Increase in operating assets				
Receivables—				
Sales financing, dealer loans and inventory financing			130,350	143,768
Consumer loans			19,138	23,992
Residential mortgages			48,030	33,441
Commercial loans			16,810	2,323
Leasing			71,202	119,686
			285,530	323,210
Less: Increase in allowance for doubtful receivables			2,346	1,677
Increase in unearned income			43,008	65,602
			240,176	255,931
Investment in marketable securities and commercial paper			(6,374)	(7,439)
			233,802	248,492
Investment in mortgage insurance and other companies			1,200	1,881
Dividends paid on preferred and common shares			13,995	13,497
			248,997	263,870
Increase in cash			11,040	7,174
			260,037	271,044

Notes to Consolidated Financial Statements

For the year ended December 31, 1974

1. Significant Accounting Policies

(a) Principles of Consolidation

The statements consolidate the accounts of the company and its subsidiaries with the exception of those of The Sovereign Life Assurance Company of Canada. The accounting practices of this subsidiary are in accordance with the requirements of the insurance laws of Canada and therefore consolidation of its accounts is considered to be inappropriate. The investment in its shares is stated at cost plus the parent company's portion of increase in unassigned surplus of the subsidiary since acquisition.

The company's 40% investment in shares of The Sovereign Mortgage Insurance Company has been accounted for on the equity method.

(b) Recognition of Revenue

Precomputed charges on sales finance retail receivables for terms for less than forty-eight months and on consumer loan receivables are taken into income using the sum-of-the-digits method on an account-by-account basis. Because this method does not maintain the original yield over longer terms, on sales finance retail contracts written for terms in excess of forty-eight months, unearned income is taken into earnings on the actuarial yield basis.

Discount on residential mortgages purchased is brought into income over the remaining term of the mortgage using the actuarial yield method.

Leasing transactions are reported in accordance with the financing method of accounting. The excess of aggregate rentals over the cost of the leased asset is recorded as unearned income at the time of the transaction. Income is taken up over the term of the lease in decreasing amounts pro-rata to the declining balance of the investment not yet recovered. Gains arising from residual values of leased assets are reflected in earnings only when realized. Contractual disposal proceeds negotiated at the inception of the lease are included in unearned income and taken up as described above.

Unearned casualty insurance premiums are taken into income on a straight-line basis. On policies sold directly to the public, 20% of the premium is recorded as income in the first month, to offset acquisition expenses. The remaining 80% and the total unearned insurance premium on policies sold to customers using the parent company's financing facilities is taken into income over the life of the policy.

(c) Allowance for doubtful receivables

For IAC sales financing, dealer loans, commercial loans and mortgages, such allowance is established on an individual account basis. For consumer loans, sales financing by Niagara Finance Company Limited and residential mortgage receivables the allowance is set up as a percentage of total receivables. After collection possibilities have been exhausted, any balance remaining on an account is written off.

(d) Translation of foreign currencies

Unhedged assets or liabilities are translated to Canadian funds at current exchange rates. Fully hedged borrowings are recorded at exchange rates established under forward exchange contracts.

(e) Amortization of debt discount and expenses

Debt discount and expenses are amortized over the term of the related debt instrument. In case of exchange or prepayment at the holder's option the amortization is calculated to the date of the first option. When a debt obligation is redeemed prior to maturity, the related unamortized charges are written off in the month of redemption.

(f) Methods of depreciation

Buildings are depreciated on a straight-line basis at the rate of 2.5% per annum. All other physical assets are depreciated at the maximum rates allowed by the regulations of the Canadian Income Tax Act for claiming capital cost allowance.

Leasehold improvements are amortized in accordance with the regulations of the Canadian Income Tax Act.

2. Gross Income

	1974	1973	Increase (decrease)	
	$000's	$000's	$000's	%
Sales financing and dealer loans	**121,523**	92,561	28,962	31.3
Consumer loans	**38,952**	34,321	4,631	13.5
Residential mortgages	**20,977**	14,650	6,327	43.2
Commercial loans and leasing	**33,692**	23,387	10,305	44.1
	215,144	164,919	50,225	30.5
Provision for doubtful receivables	**7,011**	5,898	1,113	18.9
	208,133	159,021	49,112	30.9
Casualty insurance premiums	**12,050**	10,949	1,101	10.1
Marketable securities and commercial paper	**1,567**	1,577	(10)	(0.6)
	221,750	171,547	50,203	29.3

3. Expenditure

Expenditure includes the following:

	1974	1973
	$000's	$000's
Cost of borrowed money on indebtedness initially incurred for a period of more than one year	**51,880**	47,682
Depreciation of premises and equipment	**1,146**	1,063

4. Remuneration of Directors and Officers	1974	1973
Aggregate remuneration of the IAC Limited directors as directors of:		
IAC Limited	71,704	73,800
Niagara Finance Company Limited	16,036	8,900
The Sovereign General Insurance Company	8,550	9,500
The Sovereign Life Assurance Company of Canada	10,650	6,900
	$ 106,940	$ 99,100
Number of directors of IAC Limited	16	16
Aggregate remuneration of the IAC Limited officers as officers of IAC Limited	$1,264,004	$1,067,810
Aggregate remuneration of the IAC Limited officers as directors of:		
Niagara Finance Company Limited	7,748	1,500
The Sovereign General Insurance Company	3,725	1,300
The Sovereign Life Assurance Company of Canada	4,800	1,400
	$ 16,273	$ 4,200
Number of IAC Limited officers	22	20
Number of IAC Limited officers who were also directors	4	3

5. Tax Relief Available for Future Years
A subsidiary has an excess of undepreciated capital cost for tax purposes over the net book value of fixed assets of $330,000. This amount may be applied to reduce taxable income in future years.

6. Retained Earnings—Statutory Appropriation
As at December 31, 1974 an amount of $6,605,000, equal to the par value of preferred shares purchased for cancellation, had been set aside in the accounts out of retained earnings (1973—$6,326,000).

7. Fully Diluted Common Stock Earnings per Share
Assuming that all options and conversion rights outstanding at December 31, 1974 had actually been exercised at the beginning of the year or at the dates these potential dilutive factors were created, net fully diluted earnings for the year ended December 31, 1974 would have been $1.65 (1973—$1.60) per share. The calculation assumes that earnings applicable to common shares were increased:

(a) by $27,000 representing the elimination of interest, net of income taxes, attributable to the 7% convertible subordinated debentures,
(b) by $499,000 representing the elimination of interest, net of income taxes, attributable to the 9½% convertible subordinated debentures, and
(c) by $76,000 representing interest at 10.7% per annum, net of income taxes, imputed to a notional reduction of borrowings by application of the funds which would have arisen had all options and purchase warrants been exercised.

8. Maturities of Gross Receivables and Payables

(in millions of dollars)

	1 year	2 years	3 years	4 years	5 years	6-10 years	Over 10 years	Total
Receivables								
Sales financing—								
Wholesale	287.2	—	—	—	—	—	—	287.2
Retail	387.0	244.4	103.0	26.6	12.5	25.0	0.3	798.8
Dealer loans	4.0	3.5	4.4	4.5	2.6	1.8	—	20.8
Inventory financing	8.9	—	—	—	—	—	—	8.9
Consumer loans	88.1	74.1	39.6	12.3	2.5	—	—	216.6
Residential mortgages	7.1	7.1	8.0	7.9	10.8	44.9	89.8	175.6
Commercial loans	7.9	5.5	12.0	10.3	10.0	2.8	2.0	50.5
Leasing	75.6	70.8	62.1	53.2	43.4	128.2	65.4	498.7
Other receivables and property, vehicles and equipment held for sale	3.9	—	—	—	—	—	—	3.9
	869.7	405.4	229.1	114.8	81.8	202.7	157.5	2,061.0
Payables								
Debt*	682.2	105.5	50.4	16.1	19.0	180.7	353.7	1,407.6
Other (note 13)	90.8	7.8	3.3	1.1	0.6	1.2	—	104.8
	773.0	113.3	53.7	17.2	19.6	181.9	353.7	1,512.4
Excess of Receivables (Payables)	96.7	292.1	175.4	97.6	62.2	20.8	(196.2)	548.6

*Allocation not adjusted for sinking fund and purchase fund requirements.

9. Leasing Receivables
The balance sheet presentation has been changed to reflect the total rentals receivable under lease contracts as leasing receivables and to include the excess of total rentals over the cost of the leased assets as unearned income. The 1973 comparative figures have been restated accordingly.

10. Marketable Securities
Marketable securities include those held by the casualty insurance subsidiary, at cost plus accrued income, amounting to $14,736,000 (1973—$13,983,000) (quoted value 1974—$12,487,000; 1973—$12,748,000).

11. Secured Term Notes Payable in U.S. Funds
Unhedged secured term notes payable in U.S. funds have been converted to Canadian funds at current exchange rates. The gain or loss resulting from the difference between the exchange rate at the date the proceeds were received and the current exchange rate is recorded in "UNREALIZED FOREIGN EXCHANGE GAIN" on the balance sheet. As at December 31, 1974 the amount of $6,664,000 comprises unrealized gains totalling $8,870,000 and unrealized losses of $2,206,000 in respect of term notes issued individually for the U.S. $25,000,000 notes maturing in 1976 and the U.S. $20,000,000 notes maturing in 1982 and the Series "S" and Series "40" term notes not covered by forward exchange contracts.

Future fluctuations in the exchange rate as they affect outstanding secured term notes payable in U.S. funds will be recorded in this account so long as accumulated unrealized gains exceed unrealized losses.

12. Sinking Fund and Purchase Fund Requirements
Maximum annual sinking fund and purchase fund requirements for each of the five years 1975 to 1979 are as follows:

	$000's
1975	13,650
1976	13,467
1977	14,192
1978	13,758
1979	13,272

13. Accounts Payable and Accrued Liabilities
A 6% unsecured term note of U.S. $2,241,000 of a subsidiary repayable in equal semi-annual instalments until 1981 is included in accounts payable at the Canadian equivalent of $2,222,000.

14. Unearned Income
Unearned income comprises:

	1974 $000's	1973 $000's
Unearned service charges relating to sales financing retail receivables	**122,639**	106,739
Unearned service charges relating to consumer loans	**37,134**	31,307
Deferred income relating to residential mortgages	**3,407**	2,387
Unearned income relating to leasing receivables	**146,077**	126,470
Unearned casualty insurance premiums	**5,510**	4,856
	314,767	271,759

15. Deferred Income Taxes
Deferred income taxes arise from timing differences relating to the treatment for income tax purposes of income and expenses associated with the following balance sheet items:

	1974 $000's	1973 $000's
Residential mortgages	**667**	487
Unamortized debt discount and expense	**2,714**	1,868
Premises and equipment	**206**	200
Unearned casualty insurance premiums	**654**	570
Leasing receivables	**97,751**	80,191
Loss for income tax purposes*	**—**	(2,354)
	101,992	80,962

*Loss for income tax purposes in 1973 arose from the treatment for income tax purposes of leasing receivables.

16. Common Shares

Common shares are reserved for issue as follows:

	Shares reserved **1974**	1973
(a) Personnel stock purchase plan— This is a continuing plan available after three years of service to all employees, certain of whom are directors, at $15.30 per share during 1975 (1974—$15.98) allocated on a formula based on annual remuneration. At December 31, 1974 no shares were allocated under this plan.	**130,554**	136,519
(b) Stock option plan, expiring November 30, 1976— Available to officers and certain senior personnel as determined by the Board of Directors at a price not less than 90% of the last board lot sale on The Toronto Stock Exchange on the business day next preceding the date upon which the option is granted. There were outstanding options at December 31, 1974, for 96,941 shares held as follows:		

Exercisable at—	Held by officers certain of whom are directors	Held by others eligible	Total		
$12.7125 per share	—	2,200	2,200		
$13.3875 per share	—	2,750	2,750		
$15.525 per share	34,916	56,400	91,316		
$15.30 per share	—	675	675		
	34,916	62,025	96,941	**117,150**	124,700

	1974	1973
(c) Purchase warrants exercisable to August 14, 1974 at $12.50 per share attached to the 1966 6¾% subordinated sinking fund debentures	–	503,630
(d) Conversion right exercisable until October 31, 1977 at 70 shares (equivalent to $14.285 per share) for each $1,000 of principal of the 1967 7% convertible subordinated debentures	**57,890**	63,420
(e) Conversion right exercisable until July 14, 1979 at 50 shares (equivalent to $20 per share) and thereafter, until July 14, 1984 at 46 shares (equivalent to $21.74 per share) for each $1,000 of principal of the 1974 9½% convertible subordinated debentures	**1,195,000**	–
	1,500,594	828,269

17. Commitments under Leases

The companies have leases on office premises used for their business, requiring rental payments as follows:

Years	Approximate annual rental $
1975	2,347,000
1976	2,086,000
1977	1,491,000
1978	1,239,000
1979	896,000

The aggregate rentals for 1980 and thereafter amount to $2,107,000.

18. Contingent Liabilities

The company is defendant in legal actions amounting to approximately $4,000,000. Counsel for the company are of the opinion that none of the actions will result in a material liability.

Details of Secured Term Notes

as at December 31, 1974

Schedule A

Issued Individually (at rates of interest varying from 5.5% to 11.5%)

	Year of maturity	Par value U.S. $000's	**1974 $000's**	1973 $000's
Payable in Canadian funds—				
Parent company	1974		—	34,533
	1975		**27,501**	23,391
	1976		**62,654**	19,354
	1977		**22,473**	22,673
	1978		**12,505**	12,605
	1979		**290**	285
	1980		**10**	10
			125,433	112,851
Niagara Finance Company Limited	1974		—	3,196
	1975		**6,090**	6,090
	1976		**11,269**	69
	1977		**880**	880
	1978		**172**	172
	1979		**15**	15
	1980		**20**	20
			18,446	10,442
Payable in U.S. funds (note 11)—				
Parent company	1974	—	—	1,989
	1975	12,000	**11,881**	11,969
	1976	32,000	**31,599**	2,000
	1977	2,000	**2,005**	2,005
	1982	20,000	**19,808**	19,928
	1983	10,000	**9,904**	9,964
		76,000	**75,197**	47,855
			219,076	171,148

Issued in Series

	Year of issue	Series	Rate %	Maturity date	**1974**	1973
Payable in Canadian funds—						
Parent company	1959	"T"	5¾	April 1, 1979	**6,000**	6,000
	1959	"U"	6½	December 1, 1974	—	12,500
	1959	"V"	6½	December 1, 1979	**5,000**	5,000
	1960	"W"	6	August 15, 1980	**7,500**	7,500
	1961	"X"	5¾	November 15, 1981	**8,500**	8,500
	1962	"Y"	5.40	July 2, 1982	**10,000**	10,000
	1964	"28"	5¾	September 15, 1984	**15,000**	15,000
	1965	"31"	5¾	March 1, 1985	**12,500**	12,500
	1965	"33"	6	December 1, 1985	**5,000**	5,000
	1966	"34"	6½	February 1, 1986	**6,000**	6,000
	1969	"37"*	8¼	May 1, 1974	—	15,350
	1969	"37"*	8¼	May 1, 1979	**200**	—
	1969	"37"*	8¾	May 1, 1989	**1,200**	—
	1972	"39"*	8¾	September 1, 1991	**32,118**	33,865
					109,018	137,215
Niagara Finance Company Limited	1964	"1"	5¾	April 15, 1984	**10,000**	10,000
	1964	"2"	5¾	May 1, 1985	**10,000**	10,000
	1965	"3"	5¾	May 1, 1985	**10,000**	10,000
	1966	"4"	7½	December 1, 1986	**5,000**	5,000
	1968	"5"	8¼	May 1, 1988	**7,500**	7,500
					42,500	42,500

Details of Secured Term Notes

as at December 31, 1974

Schedule A
(Continued)

Issued in Series	Year of issue	Series	Rate %	Maturity date	Par value U.S. $000's	**1974 $000's**	1973 $000's
Niagara Realty of Canada Limited	1970	"A"*	9½	December 15, 1990		**10,000**	10,000
	1971	"B"*	7⅞	December 15, 1986		**19,522**	19,650
	1972	"C"*	8¼	August 15, 1982		**13,807**	14,728
	1973	"D"*	7⅞	May 15, 1988		**19,803**	19,898
	1974	"E"*	9	March 1, 1994		**24,673**	—
	1974	"F"*	10¼	June 18, 1981		**10,000**	—
	1974	"F"**	10⅜	December 18, 1984		**15,000**	—
						112,805	64,276
Payable in U.S. funds (note 11)— Parent company	1957	"S"	5½	February 15, 1977	15,870	**15,718**	16,012
	1962	"Z"	5¼	October 1, 1982	10,000	**9,904**	9,964
	1963	"27"	5¼	April 1, 1988	10,000	**9,904**	9,964
	1964	"29"	5	October 1, 1984	10,000	**9,904**	9,964
	1965	"30"	5	February 15, 1985	15,000	**14,856**	14,946
	1965	"32"	5½	October 1, 1987	20,000	**19,808**	19,928
	1966	"35"	5¾	February 1, 1986	12,825	**12,702**	12,779
	1968	"36"*	7¾	October 15, 1986	12,800	**12,677**	13,526
	1969	"38"*	9½	June 1, 1975	4,000	**3,945**	—
	1969	"38"*	9½	June 1, 1990	13,500	**13,370**	17,437
	1974	"40"* #	9¼	May 15, 1994	32,000	**31,693**	—
					155,995	**154,481**	124,520
						418,804	368,511
						637,880	539,659

The Series "37" 8¼% 1979 notes may be exchanged at maturity for either 8½% 1984 notes or 8¾% 1989 notes.

Holders of Series "38" notes have the right to prepayment on June 1, 1975, 1980 or 1985. The first option expired December 1, 1974 and holders of U.S. $4,000,000 par value elected to exercise their right.

The U.S. $4,000,000 issued in Series "38" notes subject to prepayment on June 1, 1975 and the notes issued individually and payable in U.S. funds, except for U.S. $25,000,000 par value of these notes maturing in 1976 and all these notes maturing in 1982 and 1983 have been converted to Canadian funds at exchange rates established under foreign exchange contracts. All other notes have been converted at current exchange rates (note 11).

The interest rate on Series "A" notes increases to 9¾% on December 15, 1975. Holders have the right to prepayment on December 15, 1975, 1980 or 1985.
Holders of Series "B" notes have the right to prepayment on December 15, 1978.
Holders of Series "D" notes have the right to prepayment on May 15, 1980.
Holders of Series "E" notes have the right to prepayment on March 1, 1980.
The parent company has guaranteed Series "A", "B", "C", "D", "E" and "F" notes as to principal, interest and redemption premiums, if any.

*These notes have purchase fund provisions (note 12).
**These notes have a sinking fund provision (note 12).
The remaining U.S. $11,000,000 of this series were issued on January 15, 1975.

Details of Debentures

as at December 31, 1974

Schedule B

	Year of issue	Rate %	Maturity date	Amount authorized and issued $000's	**Outstanding 1974 $000's**	Outstanding 1973 $000's
Payable in Canadian funds—						
Parent company	1954	5¼*	February 1, 1974	7,500	—	3,040
	1954	4½*	October 1, 1974	5,000	—	2,551
	1956	5¼*	June 1, 1975	5,000	**2,213**	2,308
	1957	5¾**	January 15, 1977	12,000	**5,918**	6,067
	1957	6 **	September 1, 1977	5,000	**3,440**	3,529
	1958	5½**	February 1, 1978	6,000	**3,383**	3,411
	1959	6 **	June 15, 1979	10,000	**7,484**	7,533
	1960	6¾**	February 1, 1980	10,000	**7,486**	7,718
	1961	5¾**	July 2, 1981	10,000	**8,050**	8,281
	1962	5¾**	February 15, 1982	10,000	**7,576**	7,786
	1965	6½*	December 15, 1983	10,000	**7,248**	7,371
	1966	7½*	December 15, 1986	10,000	**7,462**	7,860
	1970	9½* #	October 15, 1992	15,000	**13,903**	14,750
					74,163	82,205
Niagara Finance Company Limited	1972	8 # #	April 17, 1992	15,000	**14,252**	14,905
	1974	11½ # # #	October 15, 1994	15,000	**15,000**	—
					29,252	14,905
					103,415	97,110

*Sinking fund debentures (note 12).
**These debentures have purchase fund provisions (note 12).
These debentures have purchase fund provisions until October 15, 1982 and sinking fund provisions thereafter. Holders have the right to prepayment on October 15, 1982 (note 12).
These debentures have purchase fund provisions and the holders have the right to prepayment on April 17, 1977 (note 12).
These debentures have purchase fund provisions and the holders have the right to prepayment on October 15, 1979, 1984 and 1989 (note 12).

Details of Subordinated Debentures

as at December 31, 1974

Schedule C

	Year of issue	Rate %	Maturity date	Amount authorized and issued $000's	**Outstanding 1974 $000's**	Outstanding 1973 $000's
Payable in Canadian funds—						
Parent company	1966	6¾*	August 15, 1984	15,000	**11,004**	11,217
	1967	7 ** # #	November 1, 1985	10,000	**827**	906
	1974	9½** #	July 15, 1994	24,000	**23,900**	—
					35,731	12,123

*Sinking fund debentures with common share purchase warrants attached (notes 12 and 16).
**Convertible debentures (note 16).
These debentures have purchase fund provisions (note 12).
These debentures have purchase fund provisions until October 31, 1977 and sinking fund provisions thereafter (note 12).

Details of Capital Stock

Schedule D

as at December 31, 1974

	1974 Shares	1974 Amount $000's	1973 Shares	1973 Amount $000's
Preferred Shares				
Authorized and issued—				
4½% cumulative shares of $100 each redeemable at $101	**100,000**	**10,000**	100,000	10,000
Purchased for cancellation	**49,468**	**4,947**	48,576	4,857
	50,532	**5,053**	51,424	5,143
5¾% cumulative shares of $25 each redeemable at $26.50 to May 15, 1977; $26.25 to May 15, 1981 and $25.25 thereafter	**600,000**	**15,000**	600,000	15,000
Purchased for cancellation	**66,311**	**1,658**	58,746	1,469
	533,689	**13,342**	541,254	13,531
		18,395		18,674
Common Shares				
Authorized without nominal or par value (note 16)	**20,000,000**		20,000,000	
Issued and fully paid				
Beginning of year	**13,006,293**	**44,114**	12,988,399	43,852
Issued during the year—				
On conversion of 7% convertible subordinated debentures	**5,530**	**79**	6,580	94
For cash—				
Exercise of options granted under the personnel stock purchase plan and the stock option plan	**13,515**	**210**	4,164	79
Exercise of purchase warrants attached to the 6¾% subordinated debentures	**462,360**	**5,779**	7,150	89
	481,405	**6,068**	17,894	262
End of year	**13,487,698**	**50,182**	13,006,293	44,114

Auditors' Report to the Shareholders

COOPERS & LYBRAND

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145 KING STREET WEST
TORONTO, ONTARIO, CANADA

We have examined the consolidated balance sheet of IAC Limited and subsidiaries as at December 31, 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

February 18, 1975

Chartered Accountants

Policies and Other Data

Accounting Policies
Accounting policies regarding principles of consolidation, recognition of revenue, allowance for doubtful receivables, translation of foreign currencies, amortization of debt discount and expenses and methods of depreciation are presented in note 1 of the notes to the consolidated financial statements, page 11.

Branch Start-Up Expenses
Start-up expenses of new branches are charged to current earnings as and when incurred.

Delinquencies
Delinquent accounts are those on which the lesser of $25 or half of an instalment is past due one month or more. Renewed accounts are analysed on the basis of the current payment schedule and extended accounts on the basis of the extended schedule. "Renewal" is a new contract entered into before the expiry of the old for the purpose of reducing the amount of the instalments originally agreed to by the customer. An "extension" means the postponement of all or a part of a current instalment. The prerequisites for granting renewals or extensions are strictly determined and renewed or extended accounts are carefully controlled. Partial payments, no matter how recent, will not remove an account from delinquent status. The Supplement to this Annual Report contains detailed information.

Intercompany Borrowing
IAC, the parent company, does not borrow from subsidiaries. Subsidiaries are not permitted to invest in IAC securities either by way of debt instruments or of preferred or common stock.

Offices
The total number of offices at year-end was 754 (1973: 751). These numbers reflect the total of offices where the services of the various companies were available. In several instances, more than one office of the IAC Companies is located in the same premises. In such situations the service of certain employees may be shared and other operational benefits are also derived. The branch network is spread in Canada from coast-to-coast and there are 18 (1973: 14) branches of Niagara Finance Company Limited in the United Kingdom.

Pension Funds
IAC has a contributory pension plan (based on retirement at age 62) covering all permanent employees with over one year of service, except those of the life assurance company. The pension plan is based on the highest average remuneration received over a period of five consecutive years prior to retirement to equal a 'final earnings' plan. This is the result of a change in the pension plan, effective December 31, 1971 which eliminates the need for any updating. The company's contribution for 1974 amounted to $907,000 (1973: $806,000). In addition the company contributed $282,000 (1973: $245,000) to various government pension plans.

The Sovereign Life Assurance Company of Canada has its own pension plan based on retirement at age 65 for employees in service at December 31, 1970 and at age 62 for staff engaged thereafter.

Personnel
The total staff employed at year-end was 2,890 (1973: 2,874).

Ten Year Operating and Statistical Summary*

Volume of Business
($000's)

	1974	1973	1972	1971
Sales financing—wholesale	**1,460,542**	1,347,917	1,112,517	955,291
—retail	**644,485**	629,425	547,076	431,658
Consumer loans	**214,156**	216,769	192,739	175,419
Residential mortgages	**88,666**	66,559	41,508	30,084
Commercial loans and leasing	**120,882**	124,103	99,127	46,909
Net casualty insurance premiums written	**13,075**	11,619	10,257	9,598
New ordinary life assurance—business written	**83,400**	67,200	60,200	51,500

Assets and Liabilities
($000's)

	1974	1973	1972	1971
Total assets**	**2,139,457**	1,852,885	1,523,353	1,298,134
Receivables**	**2,061,035**	1,775,134	1,451,213	1,202,435
Total debt	**1,407,572**	1,203,673	974,080	850,844
Total equity	**203,645**	188,437	179,520	160,882
Debt to equity ratio: times	**6.91**	6.39	5.43	5.29

Operating Highlights
($000's) (per cent of gross income)

	1974 ($000's)	1974 (%)	1973 ($000's)	1973 (%)	1972 ($000's)	1972 (%)	1971 ($000's)	1971 (%)
Gross income	**221,750**		171,547		147,635		138,502	
Cost of borrowed money	**115,847**	**52.2**	73,280	42.7	55,919	37.9	52,838	38.1
General expenses	**51,359**	**23.1**	46,083	26.9	43,214	29.3	40,740	29.4
Earnings	**23,336**	**10.5**	22,494	13.1	21,994	14.9	19,415	14.0
Preferred dividends	**996**	**.4**	1,019	.6	1,034	.7	1,064	.8
Earnings applicable to common shares	**22,340**	**10.1**	21,475	12.5	20,960	14.2	18,351	13.2
Average cost of borrowed money %	**9.0**		7.2		6.6		6.7	

Common Stock Facts

	1974	1973	1972	1971
Earnings per share outstanding				
—daily average	**$1.69**	$1.65	$1.65	$1.50
Per cent return on average equity	**12.6**	13.0	13.8	13.5
Dividends paid per share	**$ .98**	$ .96	$ .84	$ .80
Income and other taxes per share	**$1.86**	$1.82	$1.69	$1.66
Number of shareholders	**11,853**	12,510	12,672	12,802
Number of shares outstanding				
—year end	**13,487,698**	13,006,293	12,988,399	12,306,118
—daily average	**13,204,861**	12,995,747	12,694,400	12,207,770
—owned in Canada—year end %	**96.3**	95.7	96.2	95.2
Book value per share	**$13.73**	$13.05	$12.35	$11.50

*The above summary excludes data for The Sovereign Life Assurance Company of Canada, except for volume.
**Total assets and Receivables reflect the change in balance sheet presentation relating to leasing receivables referred to in note 9 to the consolidated financial statements.

Figures prior to 1969 reflect the two-for-one subdivision of common shares in May 1969.

1970	1969	1968	1967	1966	1965
738,933	764,918	768,619	626,863	602,313	701,635
428,543	505,063	478,533	380,321	397,036	422,541
168,422	174,752	178,473	164,450	157,019	166,745
20,181	18,113	12,335	13,157	6,111	14,264
47,776	42,986	25,376	18,405	14,443	41,208
10,149	10,882	10,303	10,186	9,592	8,968
47,400	46,900	44,000	36,900	34,500	39,800

1970	1969	1968	1967	1966	1965
1,232,688	1,188,228	1,090,326	972,744	943,536	983,198
1,138,981	1,111,494	1,014,893	893,876	887,427	931,533
841,506	843,284	795,448	720,252	697,472	751,948
150,628	143,431	138,305	132,650	126,941	106,728
5.59	5.88	5.75	5.43	5.49	7.05

1970		1969		1968		1967		1966		1965	
143,244		136,327		122,510		109,131		107,409		100,713	
60,693	42.4	56,030	41.1	48,958	40.0	41,577	38.1	43,386	40.4	37,431	37.2
40,938	28.6	40,161	29.5	36,761	30.0	34,715	31.8	32,628	30.4	32,214	32.0
16,862	11.8	15,484	11.4	14,936	12.2	14,205	13.0	13,509	12.6	12,297	12.2
1,079	.8	1,118	.8	1,146	.9	1,167	1.1	856	.8	327	.3
15,783	11.0	14,366	10.5	13,790	11.3	13,038	11.9	12,653	11.8	11,970	11.9
7.4		7.1		6.7		6.2		6.0		5.4	

1970	1969	1968	1967	1966	1965
$1.30	$1.19	$1.15	$1.09	$1.06½	$1.01
12.5	12.1	12.1	12.1	12.4	12.4
$ .72½	$ .70	$ .65	$ .61¼	$ .60	$ .56¼
$1.53	$1.45	$1.33	$1.11½	$1.09	$1.10½
13,502	13,904	14,081	13,675	13,776	13,220
12,131,720	12,060,587	11,977,828	11,948,622	11,868,096	11,859,934
12,085,813	11,992,218	11,954,178	11,917,132	11,861,052	11,838,938
94.7	94.1	94.1	93.1	92.4	91.1
$10.78	$10.17	$9.78	$9.30	$8.84	$8.40

Niagara Finance Company Limited

Your company's largest subsidiary, Niagara Finance Company Limited, is also the largest all-Canadian-owned consumer loan company. It provides personal cash loans and finances the purchase and leasing of household durables. Through 260 offices in Canada and 18 in the United Kingdom, it serves over 230,000 customers.

An increase of $18.6 million, or 8.25%, was recorded in all categories of consumer receivables during 1974, resulting in outstandings of $244.6 million at year end, a record high for the Company.

The Company is also engaged in the leasing of commercial and industrial equipment to major Canadian businesses.

Gross income totalled $43.3 million, 23.5% higher than in 1973. Unprecedented high interest rates and the increased use of borrowings resulted in a 75% increase in the cost of borrowed money over the previous year. The average cost was 9.8% (1973: 7.6%). Earnings exceeded those of the previous year by 3.3%.

The Company's receivables are in sound condition, net losses representing 1.29% of average consumer receivables.

A new service to customers, the completion of personal income tax returns, has been well accepted. Further growth is expected by the company in 1975 and any reduction in the cost of borrowed funds will improve earnings.

Selected Niagara Finance Statistics:

	1974	1973	1972	1971	1970
Earnings ($ thousands)	**5,508**	5,333	5,499	4,524	3,590
Receivables ($ millions)	**310.3**	273.9	198.1	178.3	174.7

Board of Directors

Robert E. Campbell
Toronto, Ont.
Senior Vice-President & Deputy Senior General Manager, IAC

Roland Chagnon, C.A.
Montreal, Que.
President, Lallemand Inc.

Joseph C. Clapinson
Toronto, Ont.
Retired

Peter Kilburn
Montreal, Que.
Chairman, Greenshields Incorporated

Joseph S. Land
Toronto, Ont.
President, IAC

Byron F. London
Toronto, Ont.
President & Chief Executive Officer

Keith H. MacDonald
Toronto, Ont.
Chairman of the Board, IAC

Douglas W. Maloney
Toronto, Ont.
Executive Vice-President and Senior General Manager, IAC

Stanley F. Melloy
Toronto, Ont.
Executive Vice-President, Finance, IAC

Lyndon E. Nichol
Rancho Santa Fe, Calif.
Director and former Chairman, IAC

L. Ronald Woodall
Toronto, Ont.
Vice-President and General Manager

Auditors' Report to the Shareholders

We have examined the balance sheet of Niagara Finance Company Limited as at December 31, 1974 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these statements present fairly the financial position of the company as at December 31, 1974 and the results of its operations and changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 7, 1975

Coopers & Lybrand
Chartered Accountants

Statement of Earnings

For the year ended December 31, 1974

	1974 $000's	1973 $000's
Gross Income (note 1)	**43,275**	35,045
Expenditures (note 2)		
Cost of borrowed money—		
Secured notes	**15,907**	8,744
Debentures	**1,617**	1,272
	17,524	10,016
General and administrative (note 2)	**14,766**	14,192
	32,290	24,208
	10,985	10,837
Provision for Income Taxes		
Current	**170**	137
Deferred	**5,307**	5,367
	5,477	5,504
Earnings	**5,508**	5,333

Statement of Retained Earnings

For the year ended December 31, 1974

	1974 $000's	1973 $000's
Earnings for the Year	**5,508**	5,333
Dividends		
Class A shares	**1,750**	1,500
Common shares	**1,750**	1,500
	3,500	3,000
Increase in Retained Earnings for the Year	**2,008**	2,333
Retained Earnings—Beginning of Year	**11,895**	9,562
Retained Earnings—End of Year	**13,903**	11,895

Balance Sheet
as at December 31, 1974

Assets

	1974 $000's	1973 $000's
Cash	**4,344**	4,566
Receivables		
Small loans (note 3)	**48,073**	54,830
Other loans (note 4)	**168,543**	142,650
Sales financing—retail	**27,935**	28,435
Leasing (note 5)	**65,299**	47,751
Other	**400**	221
Vehicles and equipment held for sale	**8**	6
	310,258	273,893
Allowance for doubtful receivables	**5,089**	4,774
	305,169	269,119
Other Assets and Deferred Charges		
Income taxes recoverable	**1,010**	4,914
Leasehold improvements and prepaid expenses	**633**	423
Unamortized debt discount and expense	**1,411**	1,179
Office equipment and automobiles—at cost, less accumulated depreciation of $1,089,000 (1973—$954,000)	**1,028**	905
	4,082	7,421
	313,595	281,106

Liabilities

	1974 $000's	1973 $000's
Secured Demand Bank Loans (note 4)	**13,925**	15,660
Secured Short-Term Notes	**56,078**	85,048
Secured Term Notes (note 6)	**60,946**	52,942
Debentures (note 7)	**29,252**	14,905
Unsecured Notes (note 8)	**32,022**	4,000
	192,223	172,555
Payables		
Accounts payable and accrued liabilities	**6,996**	14,553
Unearned Income (note 9)	**64,455**	51,392
Deferred Income Taxes (note 10)	**11,018**	5,711
	274,692	244,211

Shareholders' Equity

	1974 $000's	1973 $000's
Capital Stock		
Authorized—		
150,000 5¼% non-cumulative, participating Class A shares of $100 each, redeemable at par		
150,000 common shares without nominal or par value		
Issued and fully paid—		
125,000 Class A shares	**12,500**	12,500
125,000 common shares	**12,500**	12,500
	25,000	25,000
Retained Earnings	**13,903**	11,895
	38,903	36,895
	313,595	281,106

Signed on behalf of the Board B.F. London, Director K.H. MacDonald, Director

Statement of Changes in Financial Position

For the year ended December 31, 1974

	Proceeds from new borrowings $000's	Redemptions $000's	**1974 $000's**	1973 $000's
Sources of Funds				
Operations—				
Earnings			**5,508**	5,333
Amortization of debt discount and expense			**4,074**	2,530
Amortization and depreciation of fixed assets			**442**	380
Provision for deferred income taxes			**5,307**	5,367
			15,331	13,610
Borrowings—				
Secured bank loans	359,765	361,500	**(1,735)**	2,632
Secured short-term notes	411,884	444,786	**(32,902)**	30,591
Secured term notes	11,164	3,196	**7,968**	2,613
Debentures	14,661	653	**14,008**	(93)
Unsecured notes	376,122	348,100	**28,022**	2,500
			15,361	38,243
Other—				
Net (decrease) increase in payables			**(7,557)**	6,587
Net decrease (increase) in other assets including other receivables and property held for sale			**2,949**	(5,027)
			(4,608)	1,560
			26,084	53,413
Uses of Funds				
Increase in operating assets—				
Receivables—				
Small loans			**(6,757)**	(8,154)
Other loans			**25,893**	32,147
Sales financing—retail			**(500)**	4,578
Leasing			**17,548**	47,751
			36,184	76,322
Less: Increase in allowance for doubtful receivables			**315**	500
Increase in unearned income			**13,063**	25,016
			22,806	50,806
Dividends			**3,500**	3,000
			26,306	53,806
Decrease in cash			**(222)**	(393)
			26,084	53,413

Notes to Financial Statements

For the year ended December 31, 1974

	1974 $000's	1973 $000's
1. Gross Income		
Earned service charges and interest on receivables	**46,649**	38,120
Less: provision for doubtful receivables	**3,374**	3,075
	43,275	35,045

2. Expenditure

Expenditure includes the following shown in accordance with the provisions of The Business Corporations Act of Ontario:

	1974 $000's	1973 $000's
Cost of borrowed money on indebtedness initially incurred for a period of more than one year	**6,044**	4,921
Directors' and senior officers' remuneration	**182**	147
Depreciation of office equipment and automobiles	**349**	313

General and administrative expenses are shown net of a $2,983,000 (1973—$1,855,000) recovery of expenses from affiliated companies the affairs of which are largely administered by the company.

3. Small Loans
Small loans are those made for not more than $1,500 which are regulated under the Small Loans Act and upon which interest is accrued but not precomputed.

4. Foreign Currency
The following unhedged amounts receivable or payable in foreign currencies have been converted to Canadian currency at year end rates of exchange.

	$
Receivables in U.K. sterling	15,788,000
Secured demand bank loan in U.K. sterling	5,825,000

5. Leasing Receivables
The balance sheet presentation has been changed to reflect the total rentals receivable under lease contracts as leasing receivables and to include the excess of total rentals over the cost of the asset leased as unearned income. The 1973 comparative figures have been restated accordingly.

6. Details of Secured Term Notes
Issued Individually (at rates of interest varying from 7% to 11¼%)

Year of maturity	**1974 $000's**	1973 $000's
1974	**—**	3,196
1975	**6,090**	6,090
1976	**11,269**	69
1977	**880**	880
1978	**172**	172
1979	**15**	15
1980	**20**	20
	18,446	10,442

Issued in Series

Year of issue	Series	Rate %	Maturity date	**1974 $000's**	1973 $000's
1964	1	5¾	April 15, 1984	**10,000**	10,000
1964	2	5¾	May 1, 1985	**10,000**	10,000
1965	3	5¾	May 1, 1985	**10,000**	10,000
1966	4	7½	December 1, 1986	**5,000**	5,000
1968	5	8¼	May 1, 1988	**7,500**	7,500
				42,500	42,500
				60,946	52,942

7. Details of Debentures

Year of issue	Series	Rate %	Maturity Date	**1974 $000's**	1973 $000's
1972	"B"	8	April 17, 1992	**14,252**	14,905
1974	"C"	11½	October 15, 1994	**15,000**	—
				29,252	14,905

The holders of Series "B" debentures have the right to prepayment of principal on April 17, 1977.
The holders of Series "C" debentures have the right to prepayment of principal on October 15, 1979, 1984 and 1989.
Series "B" and "C" debentures have purchase fund provisions.

8. Details of Unsecured Notes
Unsecured notes comprise:

	1974 $000's	1973 $000's
Demand note payable to parent company	**4,800**	4,000
Term note payable to parent company bearing interest at the prime bank rate and maturing January 15, 1976	**25,000**	—
6% term note for U.S. $2,241,000 repayable in equal semi-annual instalments until 1981	**2,222**	—
	32,022	4,000

9. Unearned Income
Unearned income comprises:

	1974 $000's	1973 $000's
Unearned income relating to other loans	**37,134**	31,307
Unearned income relating to sales financing—retail receivables	**3,860**	3,671
Unearned income relating to leasing receivables	**23,461**	16,414
	64,455	51,392

10. Deferred Income Taxes
Deferred income taxes arise from timing differences relating to the treatment for income tax purposes of income and expenses associated with the following:

	1974 $000's	1973 $000's
Unamortized debt discount and expense	**414**	296
Leasing receivables	**10,604**	5,415
	11,018	5,711

Niagara Realty of Canada Limited and Subsidiary

Niagara Finance Company Limited administers the affairs of these companies which provide first and second mortgage loans, primarily on residential property. In addition, existing mortgages are purchased on both an individual and portfolio basis. These services are available through 268 Niagara branches across Canada, including 8 specialized mortgage branches.

As a result of continued strong demand for mortgage financing, receivables increased by 37.6% during the year to a total of $175.6 million. Gross income increased by 43.2%. Despite increases in money and other costs, earnings increased by 31.2% over 1973.

The condition of the mortgage portfolio is sound, with write offs for 1974 totalling 0.03% of average outstandings and delinquency of 1.47% (1973: 0.04% and 1.31% respectively).

The continuing shortage of housing in Canada and the resultant demand for mortgage financing is expected to produce further growth both in receivables and earnings.

Selected Niagara Realty Statistics:

	1974	1973	1972	1971	1970
Earnings ($ thousands)	**2,202**	1,679	1,671	1,483	832
Mortgage receivables ($ millions)	**175.6**	127.6	94.1	76.0	62.6
Average mortgage balance at year end (dollars)	**7,963**	6,339	5,269	4,580	4,099

Board of Directors

Joseph S. Land
Toronto, Ont.
President, IAC

Byron F. London
Toronto, Ont.
President

Stanley F. Melloy
Toronto, Ont.
Executive Vice-President, Finance, IAC

Lionel A. Normandeau
Montreal, Que.
Vice-President

L. Ronald Woodall
Toronto, Ont.
Vice-President and General Manager

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Niagara Realty of Canada Limited and subsidiary as at December 31, 1974 and the consolidated statements of earnings, retained earnings, and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 7, 1975

Coopers & Lybrand
Chartered Accountants

Consolidated Statement of Earnings

For the year ended December 31, 1974

	1974 ($)	1973 ($)
Gross Income (note 1)	**20,567,000**	14,358,000
Expenditure		
Cost of borrowed money	**11,636,000**	7,725,000
General and administrative (note 2)	**4,372,000**	3,224,000
	16,008,000	10,949,000
	4,559,000	3,409,000
Provision for Income Taxes		
Current	**1,802,000**	1,478,000
Deferred	**555,000**	252,000
	2,357,000	1,730,000
Earnings	**2,202,000**	1,679,000

Consolidated Statement of Retained Earnings

For the year ended December 31, 1974

	1974 ($)	1973 ($)
Earnings for the Year	**2,202,000**	1,679,000
Dividends	**1,300,000**	1,000,000
Increase in Retained Earnings for the Year	**902,000**	679,000
Retained Earnings—Beginning of Year	**3,427,000**	2,748,000
Retained Earnings—End of Year	**4,329,000**	3,427,000

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1974

	Proceeds from new borrowings $	Redemptions $	1974 ($)	1973 ($)
Sources of Funds				
Operations—				
Earnings			**2,202,000**	1,679,000
Amortization of debt discount and expense			**328,000**	220,000
Depreciation of fixed assets			**12,000**	17,000
Provision for deferred income taxes			**555,000**	252,000
			3,097,000	2,168,000
Borrowings—				
Secured term notes	48,703,000	1,471,000	**47,232,000**	18,816,000
Demand note payable—parent company			**(7,051,000)**	13,720,000
			40,181,000	32,536,000
Issue of capital stock			**2,500,000**	2,500,000
Other—				
Net increase in payables			**1,708,000**	148,000
Net increase in other assets including 'other' receivables and real estate held for sale			**(344,000)**	(79,000)
			1,364,000	69,000
			47,142,000	37,273,000
Uses of Funds				
Increases in operating assets				
Residential mortgages			**48,030,000**	33,440,000
Less: Increase in allowance for doubtful receivables			**361,000**	251,000
Increase in deferred income			**1,030,000**	411,000
			46,639,000	32,778,000
Dividends			**1,300,000**	1,000,000
			47,939,000	33,778,000
Decrease in cash			**(258,000)**	2,019,000
Decrease in cash committed for unclosed loans			**(539,000)**	1,476,000
			47,142,000	37,273,000

Consolidated Balance Sheet
as at December 31, 1974

Assets

	1974 ($)	1973 ($)
Cash	**4,407,000**	4,665,000
Cash Committed for Unclosed Loans	**3,253,000**	3,792,000
Receivables		
Residential mortgages	**175,619,000**	127,589,000
Real estate held for sale—at estimated realizable value	**73,000**	27,000
Other	**437,000**	139,000
	176,129,000	127,755,000
Allowance for doubtful receivables	**1,318,000**	957,000
	174,811,000	126,798,000
	182,471,000	135,255,000
Other Assets		
Prepaid expenses	**6,000**	6,000
Unamortized debt discount and expense	**2,150,000**	1,181,000
Office equipment and automobiles—at cost, less accumulated depreciation of $41,000 (1973—$35,000)	**32,000**	44,000
	2,188,000	1,231,000
	184,659,000	136,486,000

Liabilities

	1974 ($)	1973 ($)
Demand Note Payable—**parent company**	**48,913,000**	55,964,000
Secured Term Notes (note 3)	**112,805,000**	64,276,000
Payables		
Accounts payable and accrued liabilities	**3,290,000**	1,748,000
Income taxes	**391,000**	225,000
	3,681,000	1,973,000
Deferred Income (note 4)	**3,378,000**	2,348,000
Deferred Income Taxes (note 5)	**1,553,000**	998,000
	170,330,000	125,559,000

Shareholders' Equity

	1974 ($)	1973 ($)
Capital Stock		
Authorized— 2,000,000 common shares of $5 par value		
Issued and fully paid (note 6)— 2,000,000 shares	**10,000,000**	7,500,000
Retained Earnings	**4,329,000**	3,427,000
	14,329,000	10,927,000
	184,659,000	136,486,000

Signed on behalf of the Board B.F. London, Director J.S. Land, Director

Notes to Consolidated Financial Statements

For the year ended December 31, 1974

1. Gross Income

	1974 ($)	1973 ($)
Earned income on mortgages	**20,977,000**	14,650,000
Less: Provision for doubtful receivables	**410,000**	292,000
	20,567,000	14,358,000

2. General and Administrative Expenses

	1974	1973
General and administrative expenses include:		
Depreciation of office equipment and automobiles	**$12,000**	$17,000
Remuneration of directors and officers—		
Aggregate remuneration of directors as directors	**NIL**	NIL
Number of directors	**5**	5
Aggregate remuneration of officers as officers	**$23,000**	NIL
Number of officers	**9**	8
Number of officers who are also directors	**3**	2

The affairs of the companies are largely administered by Niagara Finance Company Limited.

3. Details of Secured Term Notes

Year of issue	Series	Rate %	Maturity date	1974 $000's	1973 $000's
1970	"A"	9½*	December 15, 1990	**10,000**	10,000
1971	"B"	7⅞**	December 15, 1986	**19,522**	19,650
1972	"C"	8¼	August 15, 1982	**13,807**	14,728
1973	"D"	7⅞***	May 15, 1988	**19,803**	19,898
1974	"E"	9****	March 1, 1994	**24,673**	—
1974	"F"	10¼	June 18, 1981	**10,000**	—
1974	"F"	10⅜	December 18, 1984	**15,000**	—
				112,805	64,276

* The interest rate on these notes increases to 9¾% on December 15, 1975. Holders have the right to prepayment on December 15, 1975, 1980 and 1985.

** Holders have the right to prepayment on December 15, 1978.

*** Holders have the right to prepayment on May 15, 1980.

**** Holders have the right to prepayment on March 1, 1980.

Series "A", "B", "C", "D", and "E" notes and series "F" notes maturing in 1981, have purchase fund provisions.

Series "F" notes maturing in 1984 have a sinking fund provision.

IAC Limited has guaranteed Series "A", "B", "C", "D", "E" and "F" notes as to principal, interest and redemption premiums, if any.

4. Deferred Income

This arises from mortgages purchased at a discount and from fees received in advance on certain mortgages.

5. Deferred Income Taxes

Deferred income taxes arise from timing differences relating to the treatment for income tax purposes of income or expenses associated with the following balance sheet items:

	1974 ($)	1973 ($)
Residential mortgages	**666,000**	487,000
Unamortized debt discount and expense	**887,000**	511,000
	1,553,000	998,000

6. Capital Stock

During the year 500,000 shares were issued for a cash consideration of $2,500,000.

The Sovereign General Insurance Company

In 1974 your Company changed its name from Merit Insurance Company to The Sovereign General Insurance Company in order to achieve closer identification with our life insurance affiliate, Sovereign Life, and to maximize merchandising of our fire, auto, and life insurance services to Canadians. Progress towards achievement of these goals is continuing.

Written premiums increased 12.5% in 1974 to $14.1 million (1973—$11.6 million). Earned premiums increased 10% over 1973. These increases are significant in light of cancellation of all British Columbia auto premiums following the entry of the government into that business during the year.

The overall loss ratio decreased slightly to 74.82% from 75.61% in 1973. Results for your Company, and for the entire industry, have been seriously affected by inflation with its heavy impact on claim settlements.

After providing fully for current and past year claims, expenses and taxes, notwithstanding the increase in income from investments, earnings amounted to $57,000 compared to $298,000 in 1973.

During the year your Company introduced a one-year fire policy to offset the impact of inflation. Amounts of fire insurance coverage were increased wherever possible to reflect current replacement values in order to obtain adequate premium. Rates on all coverages were increased during the year. In addition, quality was upgraded wherever possible along with a strengthening of claims review procedures.

The combination of these steps, coupled with some easing in general inflationary conditions, should contribute to improved results in 1975.

Selected Sovereign General Insurance Company Statistics:

(Thousands of Canadian Dollars)	**1974**	1973	1972	1971	1970
Premiums earned	**12,050**	10,949	9,750	9,524	10,301
Claims incurred	**9,016**	8,278	6,739	6,510	7,343
Expenses	**3,944**	3,244	3,288	3,560	3,361
Underwriting gain (loss)	**(910)**	(573)	(277)	(545)	(403)
Investment and other income	**1,053**	933	725	735	699
Income taxes	**86**	62	28	11	50
Earnings (loss)	**57**	298	421	179	246

Board of Directors

Robert E. Campbell
Toronto, Ont.
Senior Vice-President and Deputy Senior General Manager, IAC

Roland Chagnon, C.A.
Montreal, Que.
President, Lallemand Inc.

Peter Kilburn
Montreal, Que.
Chairman, Greenshields Incorporated

Joseph S. Land
Toronto, Ont.
President, IAC

William R. Livingston
Toronto, Ont.
President

Keith H. MacDonald
Toronto, Ont.
Chairman of the Board, IAC

Douglas W. Maloney
Toronto, Ont.
Executive Vice-President and Senior General Manager, IAC

Stanley F. Melloy
Toronto, Ont.
Executive Vice-President, Finance, IAC

Lyndon E. Nichol
Rancho Santa Fe, Calif.
Director and former Chairman, IAC

François P. Paradis
Toronto, Ont.
Senior Vice-President and General Manager—Operations, IAC

Renault S. St-Laurent, Q.C.
Quebec, Que.
Partner, St-Laurent, Monast, Walters & Vallières

Donald J. Wilson
Toronto, Ont.
Vice-President & Managing Director

Auditors' Report to the Shareholders

We have examined the balance sheet of The Sovereign General Insurance Company as at December 31, 1974 and the statements of earnings and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.
In our opinion these statements present fairly the financial position of the company as at December 31, 1974 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

January 31, 1975

Coopers & Lybrand
Chartered Accountants

Statement of Earnings

For the year ended December 31, 1974

		1974 ($)		1973 ($)	1974 (%)	1973 (%)
Premiums						
Net premiums written		**13,074,505**		11,619,102		
Less: Reinsurance premiums		**370,274**		232,737		
Net premiums retained		**12,704,231**		11,386,365		
Change in unearned premium reserve		**(653,846)**		(437,311)		
Premiums Earned		**12,050,385**		10,949,054	**100.00**	100.00
Expenses						
Claims incurred	**8,486,213**		7,651,369			
Staff adjusting expenses	**530,162**	**9,016,375**	626,979	8,278,348	**74.82**	75.61
		3,034,010		2,670,706	**25.18**	24.39
Commissions	**1,344,122**		1,110,220			
General and administrative	**2,271,209**		1,834,343			
Taxes and licences	**328,724**	**3,944,055**	299,431	3,243,994	**32.73**	29.62
Underwriting Loss		**(910,045)**		(573,288)	**(7.55)**	(5.23)
Other Income						
Income from investments	**963,394**		782,273			
Gain on sale of investments	**89,215**	**1,052,609**	150,872	933,145		
		142,564		359,857		
Income Taxes (note)						
Current			36,315			
Deferred	**85,658**	**85,658**	61,728	98,043		
Earnings Before Extraordinary Item		**56,906**		261,814		
Extraordinary Item						
Reduction of income taxes on application of prior year's loss				36,315		
Earnings		**56,906**		298,129		

Note:

Depreciation and amortization of approximately $330,000 in excess of amounts claimed for income tax purposes have been recorded in the accounts in 1974 and prior years. This excess is available to reduce taxable income in future years.

Statement of Retained Earnings

For the year ended December 31, 1974

	1974 ($)	1973 ($)
Earnings for the Year	**56,906**	298,129
Retained Earnings at Beginning of Year	**5,011,093**	4,712,964
Retained Earnings at End of Year	**5,067,999**	5,011,093

Balance Sheet
as at December 31, 1974

Assets

	1974 ($)	1973 ($)
Cash	**374,647**	197,215
Reinsurer's deposit in respect of outstanding claims (contra)	**68,420**	89,376
Accounts receivable	**2,547,672**	2,011,672
Prepaid expenses	**18,868**	20,582
Investments—at cost plus accrued income (quoted value 1974—$12,486,743; 1973—$12,748,126)	**14,736,022**	13,983,018
Office equipment and automobiles—at cost, less accumulated depreciation of $301,696 (1973—$295,950)	**138,097**	146,431
Leasehold improvements—at cost, less amounts written off	**168,301**	187,848
	18,052,027	16,636,142

Liabilities

	1974 ($)	1973 ($)
Accounts payable and accrued liabilities	**246,968**	212,869
Accrued premium taxes	**131,635**	124,613
Provision for outstanding claims and adjusting expenses	**4,712,493**	4,113,182
Reinsurer's advance (contra)	**68,420**	89,376
	5,159,516	4,540,040
Unearned premium reserve	**5,509,975**	4,856,130
Deferred income taxes	**654,237**	568,579
	11,323,728	9,964,749

Shareholders' Equity

	1974 ($)	1973 ($)
Capital stock		
Authorized—		
10,000 shares of $100 each		
Issued and fully paid—		
5,830 shares	**583,000**	583,000
Premium on shares issued	**327,300**	327,300
Contributed surplus	**750,000**	750,000
Retained earnings	**5,067,999**	5,011,093
	6,728,299	6,671,393
	18,052,027	16,636,142

Signed on behalf of the Board W.R. Livingston, Director D.J. Wilson, Director

The Sovereign Life Assurance Company of Canada

New ordinary insurance and annuities issued in 1974 totalled $83.4 million. This represented an increase of 24% over the previous year, establishing another company sales record.

The total of ordinary insurance and annuities in force grew to $462.6 million, also a new company record. Group insurance amounted to $482.1 million.

Revenue, comprising premiums and investment earnings including interest, dividends and rents, amounted to $18,448,908 (1973—$14,960,105). The increase in premium resulted from the growth in ordinary insurance, and, additionally, to a change in method of premium payment on certain group policies. An improvement in investment earnings resulted from a larger portfolio and a higher net yield of 7.28% (1973—6.86%).

The present value, discounted at 5%, of future earnings, after tax, from business now in force and from which earnings would continue even if Sovereign were to cease all selling activity, was calculated at December 31, 1974, to be $3,375,675 (1973—$3,222,042).

Copies of the Sovereign 1974 report, which reflects another year of solid progress, are available from the Secretary of Sovereign or of IAC.

Selected Sovereign Life Statistics:

(Millions of Canadian Dollars)	**1974**	1973	1972	1971	1970	1962*
Insurance in force:						
Ordinary	**462.6**	411.2	375.8	343.7	323.3	216.2
Group	**482.1**	483.8	471.7	401.4	420.0	2.6
Total	**944.7**	895.0	847.5	745.1	743.3	218.8
New business written:						
Ordinary	**83.4**	67.2	60.2	51.5	47.4	13.8
Group (Net change)	**(1.7)**	12.1	70.4	(18.7)	(29.6)	0.7
Policy reserves	**55.2**	50.5	48.3	46.7	45.4	37.2
Total assets	**78.4**	72.6	68.4	65.4	63.2	46.1
Net interest earned: Per cent	**7.28**	6.86	6.58	6.37	6.37	5.21

*Year of acquisition by IAC

Board of Directors

William J. Anderson, Q.C.
Toronto, Ont.
Partner, Gardiner, Roberts

Roger H. Charbonneau, C.A., M.B.A.
Montreal, Que.
Dean, École des Hautes Études Commerciales de Montréal

Cameron C. Gray, M.D.
Toronto, Ont.

Joseph S. Land
Toronto, Ont.
President, IAC

William R. Livingston, C.L.U.
Toronto, Ont.
President and Managing Director

Keith H. MacDonald
Toronto, Ont.
Chairman of the Board, IAC

Douglas W. Maloney
Toronto, Ont.
Executive Vice-President and Senior General Manager, IAC

Stanley F. Melloy
Toronto, Ont.
Executive Vice-President, Finance, IAC

Robert E. Moore,
Winnipeg, Man.
Partner, Moody, Moore, Duncan, Rattray, Peters, Searle & Christie

Lyndon E. Nichol
Rancho Santa Fe, Calif.
Director and former Chairman, IAC

François P. Paradis
Toronto, Ont.
Senior Vice-President and General Manager—Operations, IAC

James H. Sutherland, C.L.U.
Toronto, Ont.
Vice-President

Arthur J. Vincent
Winnipeg, Man.
President, Smith, Vincent & Co. Limited

Robert J. Wilson
Toronto, Ont.
Group Vice-President,
The Royal Trust Company

Statement of Revenue

For the year ended December 31, 1974

	1974 ($)	1973 ($)
Revenue		
Premiums and annuity considerations	**13,157,767**	10,285,998
Interest, dividends and rents, less related expenses of $356,537 (1973—$286,811)	**5,291,141**	4,674,107
	18,448,908	14,960,105
Policyholder Distribution and Expenditures		
Amounts paid to or set aside for policyholders and beneficiaries—		
Death and ordinary disability claims	**2,652,402**	2,491,210
Group disability claims	**1,518,902**	1,428,532
Matured endowments	**594,057**	921,764
Annuity benefits	**267,297**	256,141
Surrender values	**1,790,036**	1,514,941
Increase in reserves for insurance and annuity contracts	**4,694,108**	2,237,769
Interest credited to funds on deposit and pension fund	**412,589**	333,731
	11,929,391	9,184,088
Dividends to participating policyholders (including change in provision)	**941,626**	808,746
Policyholders' investment taxes	**57,000**	135,000
Group experience rating refunds (including change in provision)	**618,419**	556,476
	13,546,436	10,684,310
Operating Expenses	**4,049,249**	3,258,384
	17,595,685	13,942,694
Operating Revenue Before Income Taxes	**853,223**	1,017,411
Provision for Income Taxes	**686,000**	422,000
Operating Revenue	**167,223**	595,411
Gain on disposal of securities, less income taxes	**29,593**	118,031
Excess of Revenue for the Year	**196,816**	713,442

Statement of Unassigned Surplus

For the year ended December 31, 1974

	1974 ($)	1973 ($)
Unassigned Surplus—Beginning of Year	**8,553,826**	7,840,384
Excess of revenue for year	**196,816**	713,442
Unassigned Surplus—End of Year (note 2)	**8,750,642**	8,553,826

Balance Sheet
as at December 31, 1974

Assets

	1974 ($)	1973 ($)
Bonds and debentures, at amortized cost or less (note 1)	**23,937,985**	24,684,660
Common and preferred stocks, at cost or less (note 1)	**3,979,801**	4,153,923
First mortgages and agreements for sale on real estate	**41,048,733**	36,520,701
Loans on policies, secured by cash values	**4,568,644**	3,928,645
Real estate—		
Purchased for income, at cost, less amounts written off—$152,226 (1973—$131,786)	**972,227**	992,668
Cash and short-term investments	**2,695,283**	1,417,828
Premiums in course of collection	**235,319**	204,565
Investment income due and accrued	**785,308**	725,495
Other assets	**143,556**	6,588
	78,366,856	72,635,073

Liabilities

	1974 ($)	1973 ($)
Reserves for insurance and annuity contracts	**55,199,803**	50,505,695
Policyholders' funds on deposit	**4,897,804**	4,342,213
Policy claims in course of settlement and provision for unreported claims of $366,000 (1973—$330,000)	**717,571**	715,397
Mortgagors' tax prepayments	**759,605**	760,036
Premium and income taxes accrued	**589,323**	441,446
Other liabilities and accruals	**266,825**	547,260
Provision for dividends to policyholders	**2,106,100**	1,967,246
Provision for experience rating refunds	**772,000**	792,995
Staff and agents' pension and insurance funds	**2,150,008**	1,851,784
	67,459,039	61,924,072

Capital and Surplus

	1974 ($)	1973 ($)
Capital stock		
Authorized—		
10,000 shares of $100 each		
Issued—		
8,406 shares of $100 each of which 27 shares are fully paid and 8,379 shares are $25 paid	**212,175**	212,175
Investment reserve	**1,000,000**	1,000,000
Contingency reserve	**850,000**	850,000
Shareholders' surplus	**95,000**	95,000
Unassigned surplus (note 2)	**8,750,642**	8,553,826
	10,907,817	10,711,001
	78,366,856	72,635,073

Signed on behalf of the Board J.H. Sutherland, Director W.R. Livingston, Director

Notes to Financial Statements

For the year ended December 31, 1974

1. Valuation of Bonds, Debentures and Preferred and Common Stocks

	1974 ($)	1973 ($)
Value stated in the balance sheet	**27,917,786**	28,838,583
Estimated market value	**22,452,196**	26,171,450
Maximum value at which these securities may be carried as prescribed by the insurance laws of Canada	**26,317,398**	27,911,138

2. Unassigned Surplus

The shareholders' portion of the unassigned surplus amounts to $4,403,824 (1973—$3,632,415) of which $771,409 (1973—$641,324) represents the shareholders' share of the net increase in unassigned surplus for the year.

Auditors' Report to the Policyholders and Shareholders

We have examined the balance sheet of The Sovereign Life Assurance Company of Canada as at December 31, 1974 and the statements of revenue and unassigned surplus for the year then ended. Our examination included verification of the cash and investments in bonds and stocks by certificates from the depositories, a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. The reserves and other liabilities under the various assurance and annuity contracts are stated at amounts certified by the company's actuary.

In our opinion, based upon our examination and upon the certificate of the company's actuary, these financial statements present fairly the financial position of the company as at December 31, 1974 and the results of its operations for the year then ended, in accordance with accounting practices appropriate to the insurance laws of Canada applied on a basis consistent with that of the preceding year.

January 27, 1975

Coopers & Lybrand
Chartered Accountants

Officers and Directors

Chairman
K.H. MacDonald

President
J.S. Land

Officers

Chairman of the Board
K.H.MacDonald

President
J.S.Land

Executive Vice-President and Senior General Manager
D.W.Maloney

Executive Vice-President – Finance
S.F.Melloy

Senior Vice-President and Deputy Senior General Manager
R.E.Campbell

Senior Vice-President and General Manager – Operations
F.P.Paradis

Senior Vice-President and General Manager – Business Development
A.P.Bolin

Vice-Presidents
J.Y.Buchanan
W.P.Davidson
L.G.Gravel
R.Hémond
W.E.Hoddinott
R.K.Jackson
N.V.Keyes
B.F.London
E.W.McCracken
W.J.VanWyck

Assistant Vice-President and Treasurer
S.S.Ilaqua

Assistant Vice-President and Secretary
C.R.Stewart

Assistant Vice-President and Comptroller
J.J.Tors

Assistant Vice-Presidents
T.R.Bailey
J.C.Biron
G.J.Chevrier
G.C.Clerk
W.V.Daly
P.A.Dick
J.H.Dionne
K.G.Inch
D.H.Lyons
A.S.Mackay
R.V.MacNeill
V.Mousseau
B.S.Mowatt
J.R.A.Noel
D.A.Rattee
R.S.Tunnoch
J.L.Warren
K.E.Woodall

Directors

Ronald L.Cliff, C.A.
Vancouver, B.C.
Chairman, Inland Natural Gas Co. Ltd.

✓ Frank M.Covert, Q.C.
Halifax, N.S.
Partner, Stewart, MacKeen & Covert

✓ John S.Dewar*
Toronto, Ont.
President, Union Carbide Canada Ltd.

Conrad F.Harrington
Montreal, Que.
Chairman of the Board and of the Executive Committee, The Royal Trust Company

Peter Kilburn*
Montreal, Que.
Chairman, Greenshields Incorporated

David Kinnear*
Toronto, Ont.
Vice-Chairman, Bank of Montreal

Joseph S.Land*
Toronto, Ont.
President

Louis A.Lapointe, Q.C.
Montreal, Que.
Chairman and President, Miron Company Ltd.

Keith H.MacDonald*
Toronto, Ont.
Chairman of the Board and of the Executive Committee

Douglas W. Maloney
Toronto, Ont.
Executive Vice-President

Lyndon E. Nichol*
Rancho Santa Fe, Calif.
Retired, former Chairman of the Board

Paul L. Paré
Montreal, Que.
President, Imasco Ltd.

✓ Charles I.Rathgeb*
Toronto, Ont.
Chairman, Comstock International Ltd.

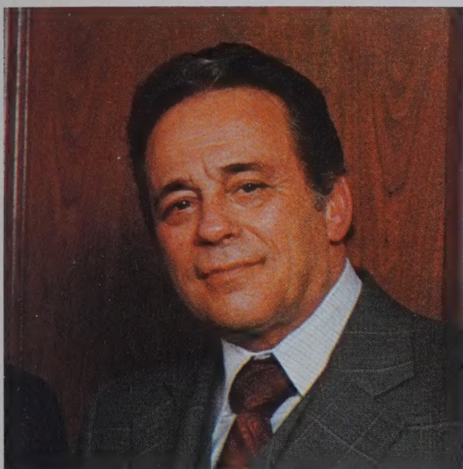
✓ Renault S.St-Laurent, Q.C.
Quebec, Que.
Partner, St-Laurent, Monast, Walters & Vallières

James C. Thackray
Montreal, Que.
Executive Vice-President, Bell Canada

Dennis K.Yorath
Edmonton, Alta.
Vice-Chairman, IU International Corporation

*Member of the Executive Committee of the Board as at December 31, 1974

Viscount Hardinge?
hr. chr. Greenshields?

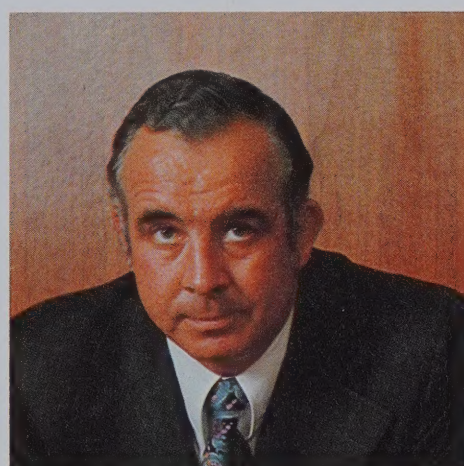


Executive Vice-President
D.W. Maloney

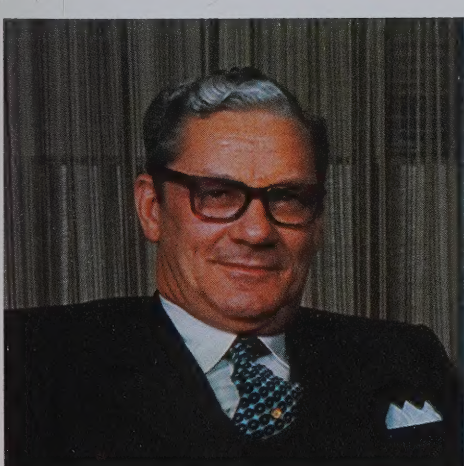
Executive Vice-President
S.F. Melloy

Senior Vice-President
R.E. Campbell

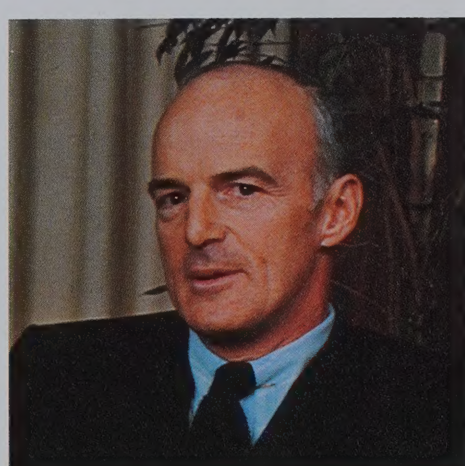
Senior Vice-President
F.P. Paradis



Senior Vice-President
A.P. Bolin



Niagara President
B.F. London



Sovereign President
W.R. Livingston

Banks with which lines of credit are established

Canada

The Royal Bank of Canada
Bank of Montreal
Canadian Imperial Bank of Commerce
The Toronto Dominion Bank
Bank Canadian National
The Provincial Bank of Canada
The Mercantile Bank of Canada
The Bank of Nova Scotia
Bank of British Columbia

U.S.A.

Morgan Guaranty Trust Company of New York
Continental Illinois National Bank and Trust Company of Chicago
The Chase Manhattan Bank NA
The First National Bank of Chicago
Bankers Trust Company
First National City Bank
Chemical Bank
Manufacturers Hanover Trust Company
Crocker National Bank
Irving Trust Company
Marine Midland Bank—Western
National Bank of Detroit
National Bank of North America
Security Pacific National Bank
Wells Fargo Bank NA
Mellon Bank NA
The Northern Trust Company
United California Bank
French American Banking Corporation
Schroder Trust Company
The Bank of New York
Harris Trust and Savings Bank
Bank of America, N.T. & S.A.

Transfer Agents

Common Stock
Montreal Trust Company
Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

The Bank of New York
New York

Preferred Stock
The Royal Trust Company
Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

Auditors

Coopers & Lybrand
Toronto, Chartered Accountants

Registrars

Common Stock
Canada Permanent Trust Company
Montreal and Toronto

The Royal Trust Company
Winnipeg, Regina, Calgary and Vancouver

The Bank of New York
New York

Preferred Stock $100 Par Value
Montreal Trust Company
Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

Preferred Stock $25 Par Value
Guaranty Trust Company of Canada
Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

Stock Listings

Montreal Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange—*Common Stock only*

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